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THE ECONOMIC RECONSTRUCTION OF AUSTRIA

1945-1952

A Report on Postwar Developments by

FRANZ HEISSENBERGER
Foreign Consultant to the Library of Congress

LIBRARY OF CONGRESS
Reference Department
European Affairs Division
Washington: 1953

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FOREWORD

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This is the second study to be published in the Austrian program of Foreign Consultants to the Library of Congress, made possible through the generosity of the Creditanstalt-Bankverein, Vienna.

It is the main duty of a Foreign Consultant to make a survey of the intellectual life in his country and in his field of responsibility and to include factual and bibliographical information which will encourage and facilitate research as well as direct contact between scholars, institutes and libraries. Dr. Franz Heissenberger offers in this study a short survey of Austrian thinking, teaching and research in the field of economics and its scholarly roots in past decades, and then concentrates on a detailed analytical description of the economic recovery of Austria, as a record of the events during the years 1945-1952. The strength of this survey lies in the abundance of material and information presented, compiled by an individual who was not dependent on published sources only but could draw on the knowledge and experience he acquired through his official and professional participation in this phase of Austria's economic life. The weakness of this study lies in the fact that it was translated in the field without the extensive professional editing and reorganization required for an English-speaking audience and this Division could only undertake minor adjustments and clarifications of the text without interfering basically with the author's intentions.

This study, besides being a concentrated source of information for additional research, represents an interesting documentation of Austria's positive efforts toward economic recovery and the decisive role the United States has played in it.

Harry J. Krould, Chief
European Affairs Division

March 1953

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INTRODUCTION

121 In my capacity as Foreign Consultant to the Library of Congress, I attempted to provide in this study a report on Austria's postwar economic problems accompanied by a short survey of the Austrian economic theory and related literature.

The survey deals with the reconstruction of Austria in the period from 1945 until 1952, and the major economic elements and features sponsoring the reconsolidation of the country are considered. 447 The ideological reflections elaborated therein are the result of those basic decisions which had been shaped within the scope of the Ministerial Committee for Economic Questions, which is a sub-committee of the Federal Austrian Government. The Ministerial Committee for Economic Questions is a joint bipartisan committee consisting of representatives of the Austrian People's Party and of the Socialist Party of Austria and functions in accordance with the constitutional rules of the Austrian Federal Government. Consequently, resolutions made by it require in each case unanimous vote of its members. Built up on this fundamental basis are the big investment programs of the Austrian Federal Government, which have been carried through during the last years, particularly after the ERP Program started. These programs are set up by the ERP Central Office of the Federal Chancellory in permanent consultation with the competent Ministerial Departments and the interested parties of industry, trade and commerce before a definite decision is taken by the Ministerial Committee for Economic Questions, whence they are reforwarded to the respective sections of the ECA Service.

465 435 652 As regards the five agreements about wages and prices reached in the years from August 1947, they were negotiated and passed as a result of common deliberations between the various interested economic associations (Federal Chamber of Industrial Activities, the Chamber of Agriculture, Labor and Trade Union), whereby, in this sector which is so important to the whole economy of the country, a middle line was maintained and the political interests coordinated as far as possible. In this connection it might be considered that all political parties agree in the view that the real wages and salaries of the workers and employees should be maintained, thus

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435 preventing a disastrous decline in the buying power
465 of the broad classes of the population. The unavoidable adjustment of certain distortions in prices as
652 well as the entire stabilization of wages and prices
was undertaken on the basis of the economic, budgetary
and credit policy. This applied also to the coordination of prices of specified agrarian products which,
in the general development, have to a large extent re-
451 mained below an adequate level. These adjustments were
652 intended chiefly to insure an utmost favorable development of savings deposits and the initiated investment
program without intensifying inflation. The promotion
of capital accumulation, thereby encouraging the influx
of new savings capital to the banks and institutions,
and the systematic consolidation of capital reserves
of the insurance companies and of the social insurance
institutions will, particularly in Austria, gain special
importance in the coming years. As a consequence of the
elimination of the counterpart funds and of the relative
slow reflux of the means invested, resulting in limited
possibilities of rediscount with the National Bank, the
necessarily long-postponed replacement of the long-term
and expensive bank credit to the capital investment
market has been initiated. Expressed in other words
this means that the reconstruction of the capital basis
of economy, by opening the cheaper sources of financing
offered by the capital market, should facilitate new
short and middle-term credits and consolidate long-term
credits which had previously been granted (especially
investment and reconstruction credits). It should also
contribute to an improved competition of Austrian products on the world markets through an adequate reduction
of one of the chief factors of the basic cost price,
i.e., credit procurement.

185 All measures of an economic-political nature
652 which are taken, however, are not applied in a purely
dogmatic way. They are effected within the ideology of
the two big political parties of Austria and thus of
the Federal Government, which is sustained by the coalition in power. It might be explained that the economic
political measures described in the following survey are
approved in principle by both of the leading political
parties, though it may be that they differ somewhat as
to the means and methods of reaching determined aims of
political economy.

185 The problem of increasing economic productive-
433 ness receives particular attention from the Austrian
Federal Government and the Austrian Productivity Center.
Labor and management are equally represented in this

Center in order to safeguard and coordinate professional 185
interests. The steady increase of economic 433
productiveness is intended to be reached by fostering
rationalization of managerial dealing and plants
as well as by cutting down the cost of production.
This too would promote Austrian export trade with an 437
eye to reaching full compensation of export and import
figures and thus ultimately to achieve an active 439
balance of payments. In the matter of this problem
it should, however, expressly be emphasized that such
balance of payments--inasmuch as it has been achieved
by new equipment and modernizing of Austrian industry
initiated during the last years--can be reached only
by and by. It was at a rather recent time that investments
could be made in Austria (1950). Consequently,
an efficient and satisfactory result from
such investments, especially from the big investments,
may not be expected before 1954 or 1955. Austria
should be allowed, therefore, a reasonable interval
of recuperation to overcome the handicap of its very
precarious situation. Nor should it be overlooked
that Austria, as a country which is strongly dependent
on a wide range of imports, is extremely sensitive to
all fluctuations and developments on the world markets.
Each change on those markets of necessity and automatically
has repercussions on the price level in the
Austrian domestic markets.

It is certainly a matter of the highest importance for the further development of Austria that the chief foreign markets should be opened for the sale of Austrian products, and especially those which are the result of intensive development. The Marshall Plan having become obsolete, it will be possible in this way only to realize the adjustment of the balance of payments. A balance of payments would, without strongly hurting the social structure of the country, open the way towards the gradual abolition of trade barriers and restrictions, to the alleviation of foreign exchange impediments, and, thus, to a progressive integration of Austrian economy into that of the Continent and beyond that to the world at large. The extension of the foreign trade volume and the increase of the invisible export, chiefly the foreign tourist and transit traffic, are a means of realizing foreign exchange reserves required for financing Austrian imports and the maintenance of an adequate satisfactory volume of employment.
The persevering energy and intrepidity of both of the 433
responsible big parties of Austria have been leading
the way towards the political and economic consolidation

433 of this country. If it may be asserted that Austria, at the present date, has already exceeded the prewar standard of industrial production (especially as regards the industries creating investment goods) and is approaching the index of the years preceding 1938 in the industry of consumer goods, a careful and unbiased examination of the situation of Austria should also give due consideration to the extremely poor condition of the country at the time when the ERP started its work. In contrast, the Western European countries, at that time, were fortunate enough to enjoy already a much greater degree of favorable economic conditions on which to base their reconstruction. This and the related general changes are factors arising particularly from the traditional markets of Austria, the Southern European countries, which continuously handicapped the economic consolidation of Austria to a very large extent.

As this report surveys the disciplined efforts of the Austrian people to work under great hardships and handicaps the reconstruction of their country, it has also the record the liberal assistance received under the famous ERP, which made it possible to reach the level of economy of today. In doing this, the study becomes the expression of gratitude on the part of the government and the people of Austria.

Winter 1951-1952, supplemented mid-1952.

Franz Heissenberger

5: Heissenberger S-4, 5 (no date) 1953 EK1 Austria EK1

THE ECONOMIC RECONSTRUCTION OF AUSTRIA 1945-1952

I. ECONOMIC SCIENCE IN AUSTRIA: TEACHING, RESEARCH AND WRITING

At the end of the Second World War, in April 1945, when Austria, in accordance with the Moscow Declaration of October 1943, had been admitted as a political entity into the circle of European nations, hunger, need and economic breakdown stood by as sponsors at the cradle of her newly erected statehood. The three political parties made a solemn declaration of independence through their faction leaders on April 27, 1945, concerning constitutional fundamentals and judicial and administrative arrangements necessary for the development of an articulate democratic life. At the outset they faced the difficult task of creating modest living conditions for the Austrian population. In view of the destruction of material potentialities, the undernourishment of the population, the absence of hundreds of thousands of experienced hands (still prisoners of war), the disorganization of the communication system, the dislocation of large parts of the population, the regrouping in the vocational structure, the lack of raw materials, fuel and electrical energy, and the disorganization of the monetary system and the urgency for reorientation of the entire economic scheme along the lines of changed European and worldwide economic aspects, a more active tempo of intellectual life could be achieved only slowly after overcoming the direst of needs (1947-1948). Then, however, fostered by the old, venerated seats of learning and the reestablished economic organizations and institutions, a faster pace of acceleration set in which, in continuance of the best national economic tradition, soon reestablished the synthesis between theory and practice. 727 815

Pure science knows no prejudice, it favors no particular political trend; it simply serves human progress. On the other hand, it is clear that in the endeavor to assert moral truth, science, in an ever critical and authoritative manner, has to separate truth from untruth, the genuine from the spurious, if it desires to accomplish its high task. Therefore, even a small country has to accept an 000

000 intellectual responsibility for it is ultimately the mental conceptions which determine the social, political and economic profile and, beyond that, the life of the peoples.

815 Austria's school of national economics, with which Menger, Böhm-Bawerk, Philippovich, von Wieser, and many others were connected during the second half of the last century and the first quarter of the present century, has produced in the succeeding generations distinguished personalities whose intellectual accomplishments have become authoritative in the present interval of new social and economic formulations. Although postwar Austria cannot compete with the scope of foreign scientific publications, her cognizance of economic science, based upon tradition and experience, provides her with mental equipment necessary to solve her distinctly difficult social and economic problems. (This is exclusive of the work of Austrians living abroad, particularly in the United States and England.)

000 Sketching the economic ideas, which have become the educational fundaments of the present generation, will be attempted in the following chapter.

A. The Scientific Contribution of Austrian Scholars to Present Day Economic Thinking.

815 Austria has twice exerted basic influence on economic science. The first time through the school of the older and younger Cameralists ("Kameralisten") of the 17th and 18th century and the second time, in a far more extensive manner, through the so-called Austrian School of National Economy.

In this study, devoted to describing the economic status of postwar Austria (beginning with 1945) it will be impossible to cover exhaustively the fundamentals of the older Austrian school with which so many illustrious names in the field of political economics are connected. However, they will be mentioned in broad outline since their works, their pioneering ideas and especially their doctrines, modified by modern thought, have creatively influenced the younger generation.

The treatment of social problems, which characterized economic teachings during the second half of the 19th century, probably fostered the development of social politics and sociology but neglected (for the time being) consideration of elementary economic relationships and, therewith, economic theories. The latter in its "classical form" was rejected, inasmuch as historical relativism, lacking an understanding of general legalities, quashed any attempt to establish special rules from universally conceded principles and acknowledged perceptions, acquired in such a manner, as only a systematization of economic ideas pertaining to the time involved. As a result there occurred a discrepancy between economic science and applied economics.

Carl Menger, who instituted a new era of national economic research (Grundsätze der Volkwirtschaftslehre, 1871), established the connection between theory and applied economics on the strength of their relationships and reciprocal effects. His ideas became authoritative with regard to modern "market economy," the re-institution of which is also the aim of the ERP program.

Menger is one of the first who penetrated through the surface tendencies of markets, barter values, prices, profits, revenues, wages, etc., getting down to the core of economics. In his opinion the latter is not directed by independent regulations, free of human influence, but is shaped by actions of individuals. The economically active human being becomes the center of observation; his needs represent the starting point and their satiation the end point between which economic thoughts and actions occur. Between these two terminals, therefore, actions take place, and from their multiplicity generally accepted economic principles are derived.

Menger approached his research from a thoroughly empirical basis, characteristic of the realism of modern theory, in deliberate contradiction to philosophical or metaphysical speculations or to politically oriented constructions. Through an ingenious analysis of the processes of price origins, he concluded that, basically, the price structure rests upon the evaluation which consumers attribute to a certain commodity. This evaluation (subjective) begins with the estimate of the value of the necessity, that value which people attribute to it to satisfy their need within a certain limited period of time. The values themselves, however, are linked to the degree of satiation that can be obtained (satiation law).

Of importance for the demand for a certain commodity, as Menger concludes further, is the subjective value which purchasers attach to it marketwise. This individual evaluation established prices, the latter regulates the extent of the production volume, which in turn determines the intensity of the producer's demand for personal and material production means. These, again, determine the prices of the output and the materials, and the levels of wages, of rents (real estate) and of capital utilization (interest) from which is derived the income of the owners of productive means. This constitutes a chain of causes and events encompassing the entire economic process. The law of calculating a value can be derived only on the basis of this interpretation, i.e., economy receives its impulses from the satiation of human needs since it is the utility as well as the welfare-purpose connected with it which determines the price. The theory of utility ("Nutzwerttheorie") confronts the theories of value of costs and value of labor ("Kostenwerttheorie," "Arbeitswerttheorie") of classic thought. From this theory of marginal utility (v. Wieser) that the value of higher ranking commodities (various stages of production means) results from the anticipated value of lower ranking commodities (consumer goods), Eugen von Böhm-Bawerk, Friedrich von Wieser and Hans Mayer later derived the "attribution theory" (distribution problem) peculiar to the Austrian school.

These economists supplemented and further developed the ideas of Menger. The researches of Böhm-Bawerk and von Wieser embrace the problems of values and price structure and later the problem of capital interests. Based upon the value principle of Menger, Böhm-Bawerk's work centers around the structure of values of production goods. For its participation in the production process of consumer goods, certain values of the latter are added in. With Böhm-Bawerk's standard work, Positive Theorie des Capitals (1896), which, like Menger's "Grundsätze," represents the earliest critical reply to the theory of capital of Karl Marx, and with his extensive social-political treatise ("Power or Economic Law," 1914), the zenith of the Austrian School was reached. Wieser occupied himself once more with the relation existing between value and cost and developed the conception of so-called "marginal utility," which became one of the most important and decisive elements of modern economic theory. He proved the unity of economics via the value principle and the interconnection of economic processes; he introduced new ideas about the theory of money and in 1926 published his great work Das Gesetz der Macht (The Law of Power) wherein he grapples with socio-political problems.

815

Thinking in more systematic terms and with a more national economic conception, was the late Eugen von Philippovich (deceased 1917). In his Grundriss der politischen Oekonomie he examined the nature, organization and development of economy and derived a comprehensive systematization of elementary economic facts (necessity, demand, commodities, services, value, prices, money, and credit). He thus places human economic endeavors within the scope of a certain social order, whereby performance and equivalents were agreed upon in relation to terms of purchase, barter, rent, lease, etc. It is his opinion that the provisioning of human beings with commodities is accomplished by means of exchange, which in turn brings order into the economic relations of people. This order reflects partially the free decisions of the individuals involved, but is also influenced by social forces, especially the nation and the law. National economy is therefore the economic endeavor of members of a nationally disposed people, linked together by exchange-relations, by regulations of private and public law and by membership in social communities with an independent economical leadership such as government and municipality. His point of view approaches the so-called organic tendencies.

The enumeration of the works of Böhm-Bawerk, von Wieser and Philippovich is not a complete one and, therefore, represents only those of their publications which became important in the development of international science. (The same applies to the enumeration of the publications of other authors, especially those published after 1945.) Between these three and the younger generation of national economists stand Hans Mayer, who succeeded von Wieser as professor at the University of Vienna, and Ludwig von Mises. Mayer worked first to solve the questions left open by Böhm-Bawerk and von Wieser (division of national income, value and price constructions of production means, 1930), concentrated on the construction and the conclusion of

815 economic production processes, developing thereby the causal coherence of all economic occurrences. Pamphlets followed on the theory of prices and methods (Preistheorie und Methodenlehre. 1932), a review of marginal utility levels (Gesetz vom Grenznutzenniveau), and one about the functional theory of Jevons, Walras, Pareto, and Cassel. Additional studies of Mayer cover the theory of market prospects and the shifting of taxes. Together with R. Reisch and the American F. A. Fetter, he published, in addition to the periodical Zeitschrift für Nationalökonomie, the compilation on economic science on an international scale, Die Wirtschaftstheorie der Gegenwart (1927-1932). There were contributions by the following Austrians: A. Ammon, C. Grünberg, E. Lederer, Hans Mayer, L. von Mises, R. Reisch, R. Schüller, J. Schumpeter, and R. v. Strigl.

Mises, following Wicksell, occupied himself originally with the theory of money and banking and later became the initiator of the theories of market prospects of the younger marginal utility theorists. He was, like his pupil J. A. v. Hayek, a leading representative of the monetary market prospect and crisis theory. Mises paid particular attention to questions relating to the most appropriate development of economy, critical examinations of the operational possibilities of "free" or "limited" economic organization, which were also debated during the procedures for the Austrian nationalization legislation of 1946 and 1947. The endeavors of von Mises became finally the basis upon which the "neo-liberals" like von Hayek, W. Röpkes, etc., issued their newer and latest publications. (His works include: Theorie des Geldes und der Umlaufmittel, 1912. Die Gemeinwirtschaft, Untersuchung über den Sozialismus, Liberalismus, Kritik des Interventionismus, Nationalökonomie, 1940. Burocracy, 1945. Planned Chaos, 1947, etc.)

The succeeding (present) generation of Austrian national economists concerns itself mainly with problems of market prospects, especially since 1937.

In this connection questions pertaining to the theory of money (Hayek, Kerschagl), the theory of income (Mahr) and the theory of wages (Striegl) in addition to the theories of foreign trade (G. v. Haberler, J. Machlup) and the doctrine of systematization (Hayek, under the influence of von Mises) are still scrutinized. Mises, Haberler, A. Lauterbach (The Road to Serfdom. 1946; Economic Security and Individual Freedom. 1949, a reply to the studies of

Hayek and Machlup as well as a discussion of the work of O. Morgenstern and the mathematician J. v. Neumann, The Theory of Games and Economic Behavior, 1944) and P. N. Rosenstein-Rodan (marginal utility theorist) are lecturing presently at leading universities in the United States, as is the finance scientist, Schumpeter. Hayek is connected with the School of Economics, London, while A. Ammon (Volkswirtschaftliche Grundbegriffe und Grundprobleme, 1938) lectures at Bern, Switzerland.

Some of the more prominent theorists working in Austria are: H. Bayer (Sozialisierung und Planwirtschaft, 1947) presently at the University of Innsbruck; L. Illy (Das Gesetz des Grenznutzens, Untersuchungen über die Wirtschaftsrechnung des Konsumenten, 1949); R. Kamitz (critical reviews and pamphlets about currency policy and author of the voluminous treatise on the Austrian money and currency problem, "Die österreichische Geld- und Währungspolitik von 1848-1949," published in the compilation 100 Jahre österreichischer Wirtschaftsentwicklung 1848-1948 by Hans Mayer, university professor, Vienna); R. Kerschagl (Handelspolitik, 1949) (Das Geld von Heute, 1949); A. Mahr (Volkswirtschaftslehre, 1948, one of the most up-to-date manuals on national economy to come from the Austrian School); and O. Weinberger (Grundriss der Volkswirtschaftslehre, 1949). The present lecturer of political economy at the University of Vienna, Professor F. Degenfeld-Schonburg likewise does not reject the principles of utility value.

Besides the theorists of the utility doctrine there were and are other scientists at work. The so-called "organic branch" is represented by O. Spann's Die Ganzheitslehre and by F. v. Gottl-Ottilienfels Die Gebildlehre. Spann confirmed originally the utility theory of the Austrian School, replacing it later by the "Leistungstheorie" (performance theory), i.e., directing operational economic means towards fixed economic goals, just as he generally considered economy to be a part of the social and organic unit. [Universalism. Basic thought: "Wirtschaft ist Gesellschaft" (economy is society) and "Gesellschaft ist nicht Summation einzelner Individuen sondern lebendiger Widerhall der Geister" (Society is not a summation of separate individuals but a living echo of intellects).] Gottl perceives a scale of the economic theory: "Grundlehre" (Basic principles), "Formlehre" (principles of

815 structure) and "Gestaltungslehre" (principles of development), whereby occurrences within the society are reflected in the particular social establishments as, for example, in the relation of necessity and satiation in an economy. In addition, representatives of the "organic principles" are E. H. Vogel (Theorie des Bedarfdeckungsprozesses und der Einkommensbildung, 1945), who, in his works on financial science, does acknowledge the influence of the Austrian School; W. Heinrich (Wirtschaftspolitik, 1948), a pupil of O. Spann who follows the trend towards social universalism and H. Tautscher (Bankenverstaatlichung; Zur Frage des gestuften Zinses, 1946; Staatswirtschaftslehre des Kameralismus, 1947). Tautscher, sharing partially the ideas of Vogel, nevertheless follows a more neo-mercantile trend while Th. Pütz (Theorie der allgemeinen Wirtschaftspolitik und Wirtschaftslenkung, 1949) follows Gottl.

National economists of a more conservative viewpoint, whose interests center more around questions of economic and social policy, are F. Degenfeld-Schonberg, F. A. Westphalen and E. Lagler. The sociologist A. M. Knoll is a close associate.

Theorists of the socialistic conception, who, besides historical researches, promulgate questions of planned economy, prospects and crises, socialization and union problems, include: C. Grünberg, Emil Lederer, J. Marschak (agrarian problems).

816 647 Next to the pure theorists are to be mentioned practical economists, with accumulated knowledge and experience, who, in responsible public positions, promulgated the Austrian course in many a crisis. Of the large number, just a few recent ones can be mentioned.

V. Kienböck was formerly minister of finance and president of the Oesterreichische Nationalbank. After the First World War, as financial expert of Federal Chancellor Ignaz Seipel, he effected the currency reform. Kienböck is at present consultant to the Oesterreichische Nationalbank. His book on currency and economy appeared in 1947 (Währung und Wirtschaft).

W. Taucher was minister of commerce and chief of the Chamber of Commerce of Graz in Styria. He is now managing the ERP Central Office within the Federal Chancellery. Taucher lectures at the University of Graz on economic policies.

Karl Renner, the late federal president, 643
who died in 1950, occupied himself particularly with 816
social-political questions. Despite his age and professional obligations he published during the last years *Die neue Welt und der Sozialismus*, 1946, *Vom liberalen zum sozialen Staat*, 1948, besides numerous social-political contributions.

The minister of foreign affairs, Karl Gru- 645
ber, who also lectures on national economy as 816
"Privatdozent" at the University of Vienna, published *Voraussetzungen der Vollbeschäftigung*, 1946, and *Die Zusammenhänge zwischen Grösse, Kosten und Rentabilität industrieller Betriebe*, 1948.

From this it may be seen that the Austrian 815
national economists, whether they be theorists or 816
practical experts, provide a strong unity of theory and practice. Teachers of universities (especially of the University of Vienna), are frequently entrusted by the government with important economic tasks which they perform within the sphere of a higher public function or upon an economic level.

Besides the colleges, also the Bundeskammer der gewerblichen Wirtschaft (a chamber organization), especially the Chamber of Commerce, Vienna, and the Austrian bureaucracy (particularly the Ministry of Commerce and the Ministry of Finance) have leading economists in their employ.

This synthesis of science and practical experience also accomplished in the postwar years the solution of various problems, no matter whether they concerned questions of currency, banking and credit, production and investment policies, and, in connection with the Marshall Plan, the drawing up of economic programs, foreign trade, foreign exchange and payment balances. From the above it may be seen that the younger generation of Austrian economists in ministerial service has been able to master the problems arising with the initiation of the Marshall Plan on the strength of its thorough theoretical schooling.

B. Organizations and Publications in the Field of Economics.

815 Austria boasts of a number of leading so-
cieties and institutions which foster theoretical
national economics and current economic policies.
The "Nationalökonomische Gesellschaft" (National Eco-
nomic Society), Vienna, established in 1918, covers
the field of theoretical national economics. The
present chairman is Hans Mayer, already mentioned
above. The "Gesellschaft österreichischer Volkswirte"
(Society of Austrian Economists) follows an economic-
political course. It was founded by the late member
of parliament, Dr. Alexander Peez, in the 'eighties
of the last century, and is presently under the chair-
manship of Dr. Ernst Mosing, former president of the
Oesterreichische Boden-Credit-Anstalt. The "Oester-
reichisches Institut für Wirtschaftsforschung" (Aus-
trian Institute of Economic Research), founded under
the sponsorship of the Vienna Chamber of Commerce in
1927, gained international repute under qualified
leaders (since 1945 F. Nemschak and E. John). The
816 regularly published monthly bulletins Monatsberichte, con-
204 taining numerous statistical data, are not only important
for the official economic policy, but also provide
private practical economists with valuable material.
Chairman of the board of trustees is the former minister
Dr. H. C. Eduard Heinl, president of the Creditanstalt-
Bankverein, vice-chairmen are the retired secretary-
of-state, Karl Mantler, president of the chamber of
workers and employees, and Dr. Hans Mayer, professor at
the University of Vienna. Besides comprehensive
treatises with regard to the development of the Aus-
trian economy (annual reports) and general surveys of
prospective trends (monthly reports), studies in various
economic sectors are being undertaken and the results
published. They provide a clear picture of the develop-
ment of Austria. Particularly numerous were last year's
publications, among which the following questions were
analyzed: margins in the price and wage structure;
larger seasonal unemployment following an over-dimension
of construction programs; the new federal budget (1950);
business failures in Austria since the end of the war;
current questions about production increases; the situ-
ation in international raw material markets; the produc-
tion and use of milk and milk products in Austria; the
fourth price and wage agreement; the raw material markets
of the fourth quarter, 1950; development of the working
week in industry; the federal budget in 1951; Austria's
economy at the end of 1950; Austria's bread consumption.

In addition the Institute had been entrusted 204 with a number of tasks by public institutions or by 816 agencies working for public interests. The Federal Chancellery, Central Office for ERP Affairs, entrusted to the Institute the preparation of reports and the expression of opinions as well as other tasks, while the Central Office itself, in accordance with Article VI, paragraph 2, and Article VII, paragraph 4, of the [648] bilateral agreement between the United States of America and Austria of July 2, 1948, prepared the quarterly economic reports, outlining results achieved with ERP means and the economic measures undertaken. The Austrian Investment Program of 1950-1952 has been designed in collaboration with the Institute.

A close cooperation exists between the Institute and the "Oesterreichisches Produktivitätszentrum" [647] (OPZ) (Austrian Productivity Center), Vienna. The Zentrum was created by a ministerial decision of March 6, 1950. Dr. Taucher, Chief of the Federal Chancellery, Central Office for ERP Affairs, serves as president. Dr. Nemschak acts as manager. Within the scope of this cooperation a number of problems were investigated: the scarcity of vocational employment for youth and combating it; the Austrian paper industry; the processing of Austrian foreign trade transactions; the Viennese housing requirements and its future development; opinion studies of managers, engineers, foremen, and employees relative to production increases; possibilities of increased yield from the tourist trade through elimination of seasonal trends; cooperation in the designing of rules permitting the ascertainment of production index numbers of cotton textile mills relative to a coordination of the averages with upper and lower margins. Shortly released will be: structural analysis of the Austrian textile industry; analysis of the employment possibilities and causes of unemployment in the catering trade; preparation of a memorandum about the effects of a prolonged scarcity of imported raw materials upon Austrian production and employment situation; the Austrian railroad-trucking problems; the development of productivity since the end of the war; extension of a wage and earning index in collaboration with the Bundeskammer der gewerblichen Wirtschaft; comparison of the living cost indexes of various countries; development of raw material consumption, investment activity and turnover; improvement of living costs and wage index calculations for which additional statistical investigations are necessary. The [1032 Austrian Productivity Center published monthly a pamphlet Der Schüssel (The Key), intended to foster within an extended circle of readers understanding of production step-ups and exchange of technical experiences.

204 177 647 433 Operating within the Austrian Productivity Center there is a sub-section for "Technical Assistance." This provides Austrian experts of various establishments with opportunities to acquaint themselves with the latest developments of their business lines in the United States. The results of these study trips are evaluated in a publication Die Studienreise, in which the impressions and experiences of the technical assistance delegation are brought to the attention of a large circle of interested persons. The first publications are entitled Moderne Holzernte (Modern Lumber Crops) and Gäste aus Amerika (Guests from America). To acquaint the public at large in a comprehensive manner with the productivity problem, a popular pamphlet series Der Ausweg (The Way Out) has been published, its first number being entitled Produktivitätssteigerung--der Ausweg (Greater Productivity - the Way Out).

Particularly valuable for the exchange of ideas, formulas, etc., is the Economic Technical Information Service of the Austrian Productivity Center which developed into a liaison office between domestic and foreign information centers. Collaborating with Technical Assistance, it answers inquiries about American production processes, firms and equipment, and loans small-sized motion picture films and projection apparatus. It further provides, in cooperation with OEEC countries, trade or professional journals and books, furnishes excerpts of the latest American professional literature ('Digest and Abstracts Service") and answers inquiries about American licenses and patents. This service is supplied and supported by a documentation center.

647 816 [204] A special cooperation for the furtherance of statistics exists between the Oesterreichisches statistisches Zentralamt, Wien (Austrian Statistical Central Office, Vienna), and the Institute of Economic Research. The Statistical Central Office publishes monthly, in collaboration with the Committee of Economic Central Offices and Chambers, the official Statistische Nachrichten (Statistical News), the editor-in-chief of which is presently Hofrat Dozent Dr. Arnold Madlé. In this connection the Oesterreichische Statistische Gesellschaft (Austrian Statistical Society) should also be mentioned. It was established March 31, 1951, for the purpose of cultivating statistics in all sections of the social and natural sciences besides furtherance of statistical teaching. Chairmen of the board of trustees are: the president of the Austrian Statistical Central Office,

former minister Dr. Georg Zimmermann, and the manager 647
of the Statistisches Institut der Universität Wien
(Statistical Institute of the University of Vienna), 816
Professor Dr. Wilhelm Winkler. The latter is the
author of a number of treatises about principles of
methods and economic statistics. In this field of endeavor
he is being supported by F. Klezl-Norberg,
vice-president of the Statistical Central Office.
These two theorists share, from a national economic
point of view, the ideas of the Austrian School, whereby
the first named inclines more or less towards
mathematics and economics.

The Ständige interministerielle Referentenkomitee [464]
zur Bekämpfung der Arbeitslosigkeit und Sicherung
der Vollbeschäftigung (Permanent Inter-ministerial
Committee of Department Heads to combat Unemployment
and to secure Full-time Employment) also cooperates [654]
with the Institute of Economic Research. This committee
concerns itself not solely with the task of enforcing
immediately adequate measures, but also directs
attention towards weak points in the economy which
eventually could influence the intensity of work; it
further prepares long-term economic measures which
should be enacted.

The Mitteilungen (Reports) of the Oesterreichisches
Kuratorium für Wirtschaftlichkeit (Austrian
Board of Trustees for Economy), a board sponsored by
the Bundeskammer der gewerblichen Wirtschaft, are
especially concerned with rationalization problems
(Manager: Consul Schmidhuber). Science of business economics 874
is a discipline particularly taught at the Hochschule
für Welthandel, Vienna, which has quite a number 451
of experts on its lecturing staff (W. Bouffier, F.
Dörfel, K. Oberparleiter). This branch of science became, 816
via the balance theory, more and more related to
theoretical economics. In this way--and this applies to
the entire field of commercial science--the selection of
themes, the setting of problems and the methods of presentation
show the influence of the Austrian School. The
science of business economics has contributed to better
and more standarized forms of accounting, improvements
in bookkeeping and cost accounting. Scientific handling
of advertising and market research has substantially
improved plant management.

Austria has become intensely interested lately 461
in methods of work psychology, which have proven successful 466
in the United States, England and other western
nations. In this connection may be mentioned the 816

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Oesterreichisches Institut für angewandte Arbeitswissenschaft (Austrian Institute of Applied Science of Work), Vienna, under Dipl. Ing. Otto Korwik. Employing principles of work-psychology, this institute has undertaken research work within large plants on production increases, improvement of quality, of production, working conditions, etc. The magazine Mensch und Arbeit, published by the Arbeitsgemeinschaft für Psychotechnik in Oesterreich (Committee for Psycho-Technics in Austria), Vienna, covers this field. On the board of trustees of this committee are former minister Dr. H. C. Eduard Heinl, member of parliament and president of the Gewerkschaftsbund Johann Böhm, as well as many other prominent individuals.

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Thanks to a release of ERP-counterpart funds, it will be possible to establish an Austrian Institute for Timber Research. The lumber industry is one of the most importent in Austria. This Institute shall furnish the work industry with new theoretical and practical ideas, which in turn should benefit production. The Institute will cooperate closely with the testing laboratories of the technical colleges of Vienna and Graz.

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Scientific as well as economic endeavors are being supported by large libraries. The Wiener Handelskammer (Chamber of Commerce), for instance, accumulated during the one hundred years of its existence more than 150,000 volumes, becoming thereby not only the largest library of economic science in Austria but probably also in central Europe if one takes into account the losses incurred during the last war. The latest foreign publications are in its collections and it is continuously frequented by economists as well as students of national economics. The library of the Oesterreichische Institut für Wirtschaftsforschung contains 10,000 volumes, mostly about market prospecting and foreign trade, while the library of the Institut für Wirtschaftswissenschaften an der Wiener Universität with its 30,000 volumes comprises works of theoretical economics besides international publications.

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Austria also has a number of well-edited periodicals for political economy. The oldest one in the economic field in Austria, adhering to a scientific background and serving an extended reader clientele, is Der Oesterreichische Volkswirt (The

Austrian Economist), founded by W. Federn in cooperation with G. Stolpern. An English edition is now being issued. The Vereinigung österreichischer Industrieller, a private society of industrialists, issues a weekly Die Industrie. Direktorium der Oesterreichischen Nationalbank, issued monthly, is top-notch. It contains, in addition to topics about the financial and economic developments in Austria, statistical charts, diagrams, data about the circulation of currency, the processing of reconstruction credits, rates of exchange, ERP counterpart accounts, surveys about the development of credit volume and of deposits, price trends, imports and exports, payment balances, etc. The Creditanstalt-Bankverein, Vienna, issues besides its quarterly economic reports, Wirtschaftsberichte, and monthly Monatsberichte, special publications (e.g., on the Marshall Plan). The Oesterreichische Länderbank A. G., Vienna, also issues a monthly report. The association of banks and bankers, Verband österreichischer Banken und Bankiers (President: Dr. Josef Joham, General-Manager of Creditanstalt-Bankverein; Manager: Dr. E. Karlik) publishes semi-monthly the Bankenkorrespondenz (Editor-in-chief is Dr. Gustav Knoth). It contains news about international developments in banking and finance. 204 816

With regard to ERP aid, there appear besides the quarterly publications of the Federal Chancellery ERP Central Office, a number of compiled publications, among them Oesterreich und der Marshallplan (Gerlach and Widling, Vienna, 1950) and the Oesterreichisches ERP Handbuch (Verlag für Geschichte und Politik, Vienna, 1950). The latter two were published under the sponsorship of the Federal Chancellery ERP Central Office and contain basic documentary material (laws, etc.). In commemoration of its 100th anniversary the Bundeskammer der gewerblichen Wirtschaft published a lavishly detailed work: 100 Jahre österreichischer Wirtschaftsentwicklung 1848-1949 (Springer Verlag, 1949) under the editorship of Professor Hans Mayer. In this extensive volume emphasis is on economic questions not only from a historical but also from a scientific point of view. Of economic periodicals catering to a professional audience mention must be made of Die Wirtschaft and Die internationale Wirtschaft, both published by the Oesterreichischer Wirtschaftsverlag, Vienna. A number of publications emphasizing vocational trends are issued by the Oesterreichisches Gewerbeförderungsinstitut (Austrian Institut for Trade Promotion, Vienna), an institution sponsored by the Bundeskammer der gewerblichen Wirtschaft. [047]

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(These publications are printed at the Oesterreichischer Gewerbe-Verlag . The economic columns of som newspapers are also well done, especially those of the independent Presse. Literature about scientific and political economics doubtless has achieved a significant level in postwar Austria, despite the difficulties publishers and newspapers have because of limited outlets.

II. ECONOMIC-POLITICAL ISSUES: ANALYSIS AND SOLUTION

The first part of this survey was intended to acquaint the reader with a review of opinions, thoughts and trends of the scientific economic works and to furnish him with a cross-section of past and present publications which influence the intellectual profile of contemporary Austria since 1945. The second part shall acquaint the reader with Austria's many economic problems and the important aspects of Austrian economic policy, thus pointing up the expert's ideas and considerations which are at the basis of measures enacted. This will make it possible to get an over-all view of the reciprocal action between the ERP and the various economic sectors within the framework of a national economic balance. 121

A. The Political and Economic Reestablishment of the Second Austrian Republic. Problems of Austrian Reconstruction.

1. The Political and Economic Reestablishment of the Second Austrian Republic.

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During the Second World War, particularly during the repeated meetings of leading political and military leaders, principles were laid down upon which the postwar political and economic reconstruction of the world should be based. The first of the pertinent documents was the eight-point declaration of the Atlantic Charter of August 14, 1941, by President Roosevelt and Prime Minister Churchill. Both expressed the desire to reinstate sovereign rights and autonomous government in all countries that had become victims of agression. The second basic document of this type was President Roosevelt's New Year's Message (January 6, 1942), concerning the Declaration of the United Nations at Washington, D. C., on January 1, 1942, based upon the principles of the Atlantic Charter. However, of importance to the constitutional reestablishment of Austria, was to be the solemn declaration of the governments of the United Kingdom, the Soviet Union and the United States during the Moscow Conference of Foreign Ministers (October, 1943), providing that one of the aims of this reorientation was that Austria, the first free country to become a victim of Hitler's aggression, must be freed from German rule. The great powers considered the forced annexation of Austria by Germany

648 728 on March 15, 1938, as null and void and further expressed the desire to see a free and reestablished Austria. This accomplishment would enable the Austrian people, as well as neighboring nations confronted with similar problems, to find that political and economic security which is the only foundation of a lasting peace.

The powers augmented this declaration at the Conference of Yalta (Crimea conference of February 4 - 11, 1945) by agreeing to promulgate the reinstatement of sovereign rights as well as self-government for all peoples deprived of such rights by aggressor nations. To implement the practical exercise of these rights, liberated European nations should be assisted in the amelioration of want and need as well as in the creation of a (provisional) governmental authority in which all democratic population elements were to be represented on a broad basis, and which should in turn be required to establish, as soon as possible, a government, chosen by free elections, acting in accordance to the will of the people.

642 727 Based upon the repeated declarations of the powers the chairmen of the three political parties proclaimed the Second Republic of Austria on April 27, 1945, immediately after cessation of hostilities in Austria. In accordance with Article I of this proclamation the "democratic Republic of Austria" was reestablished and to be organized similarly to the constitution of 1920. Article II provided that the annexation forced upon the Austrian people in 1938 was to be considered as null and void. Therewith Austria joined again the family of European nations.

The first legislative acts of the provisional government concerned the framework of the constitution, the reestablishment of the legal system and the appointment of authorities. On the strength of the "Verfassungsüberleitungsgesetz" (i.e., the law to reestablish Austrian enactments for German ones), Austria was fundamentally reestablished as a democratic republic, reverting to the provisions of the federal constituion of 1920, as amended in 1929. Simultaneously a provisional constitution was agreed upon which regulated the government. In essential stipulations it conformed with the constitutional law of 1929. The "Behördenüberleitungsgesetz" (i.e., the law to reestablish Austrian authorities) was enacted to establish a new Austrian authoritative apparatus. It stipulated the definitive substitution of administrative and judicial instruments of the German Reich by

those of Austria as of July 20, 1945. This was 642
followed by the "Beamtenüberleitungs- und Staats- 727
bürgerschaftsüberleitungsgesetz" (i.e., a law reestablishing the Austrian status of employees and citizens), the reorganization of municipal law as well as the "Nationalsozialistengesetz," known as NS, the law prohibiting national-socialism (Verbotsgesetz 1945 and the Wirtschaftssäuberungsgesetz).

Following the arrangement agreed upon by 727
the powers, Austria was divided into four occupation 631
zones and their divisioning settled during August, 642
1945. The supreme occupation and control authority is the Allied Commission for Austria in Vienna which retained a number of sovereign rights, but which little by little after 1946 transferred substantial shares of authority to the Austrian Federal Government.

At the Potsdam Conference (protocol of 728
August 2, 1945) the powers, examining the question of extending the executive power of the provisional government (Dr. Renner) which up to then covered only the Russian occupation zone, recommended the extension of this power to cover all Austria.

In the federal provinces, meanwhile, pro- 631
visional provincial governments were established and the federal provinces constituted, permitting the functioning of a provincial legislature within the jurisdiction of the constitution of 1929. At the same time the reestablishement of the Verfassungs- und Verwaltungsgerichtshof (i.e., a constitutional court) was prepared. On October 20, 1945, the Allied Commission for Austria finally authorized the provisional federal government, to enact laws for all of Austria (which, however, first had to be submitted to the Allied Commission for approval).

The elections of November 25, 1945, which had 666
been arranged by the election proclamation of the pro- 642
visional government, brought about the legalization of the endeavors of the provisional government, which resigned on November 28, 1945.

1945 Election: Tally of Votes and Seats

ÖVP (Austrian Peoples Party)	1,588,444 votes	85 seats	666
SPÖ (Socialist Party)	1,428,441 votes	76 seats	646
KPÖ (Communist Party)	174,387 votes	4 seats	
	3,191,272 votes	165 seats	

642 On December 3, 1945, a committee of the political parties entrusted Secretary of State Figl with the formation of a government, which the Allied Commission approved on December 18, 1945. On December 20, 1945, a session of the Federal Assembly (Nationalrat and Bundesrat) with a vote of 204 out of 205 elected Dr. Karl Renner to the presidency. He accepted the office for the term of six years.

642 648 The new federal government as well as the presidency were recognized by notes of the various powers although these notes showed deviations in texts. Thus the first phase of the constitutional reestablishment of the Second Austrian Republic was concluded. The federal government could proceed with the task of solving the most important economic problems.

2. The Situation after the Cessation of Hostilities and the First Economic Reorganization Measures, 1945-1947.

727 The reestablished Second Austrian Republic faced a great economic task. The losses and damages from the war destroyed almost a quarter of the total national capital which had amounted to about 38 billion schillings.

[362] In Vienna alone, 37,000 apartments were completely destroyed and 50,000 partly destroyed, while 25,000 were less severely damaged. Aside from extensive destruction of raw materials was the loss of machinery through dismantlements, especially in the eastern part of the country after 1945, which caused deficiencies in extremely valuable production material amounting to at least 1.2 billion RM (at prices fixed as of 1940). Plants of the electric, vehicle, machine, iron and metal industries, and steel mills lost more than 46,000 machines. This meant that in some instances, the combined loss of the war and postwar period amounted to 80 percent of the
[433] machines and equipment. These deficiencies were all the more burdensome since the destruction and the removal of the production means led unavoidably to severe disturbances in the general economic scheme.

[162] Austria also suffered substantial losses in human lives. Out of a population of 7,000,000, the number of dead or missing totalled 350,000 and the wounded 170,000. These losses were mainly from the ranks of the able-bodied age groups (13 percent).

727 [461] [433] In comparison to prewar times a definite lowering of individual performance efficiency had set in among the rest of the population caused by years of undernourishment and poor general physical condition aggravated by a series of psychological strains up to 1947. Another thing to be taken into account was the reorientation of the entire European economic structure in the wake of political changes, particularly the solution of certain problems of large industrial enterprises (the iron and steel industry). Last but not least were the great economic and political changes which had taken place in the areas of Austria's traditional markets, eastern and southeastern Europe.

[454] The destruction of capital substance weighed particularly heavy. It was obvious that the greater part of savings capital, accumulated prior to 1945, was economically no longer covered. Within the scope of a planned war economy that money had either been invested in weapons and war material which became valueless, or it was originally invested in profitable enterprises which were destroyed or diminished through the effects of the war, e.g., plants, equipment, razed woodland, etc. On the other hand, in accordance with instructions of the German finance administration, great parts of the liquid assets and reserves of banks, the premium reserves of large insurance companies, etc., had to be invested in bonds of the German Reich (especially Reichsschaftsanweisungen), whose value became as questionable as savings deposits.

652 In view of these circumstances the Austrian federal government faced difficult problems. For the sake of simply existing it was necessary to reestablish the financial foundation, a task impossible to accomplish without a proper Austrian currency (to be newly created), without gold or foreign exchange reserves to cover this currency, without a national bank of issue, without reconstruction of a banking and credit apparatus, and particularly without first straightening out the balances essential to large banking institutions.

433 [438] Not any less difficult to solve, in relation to the previously mentioned conditions, was the second problem: the revival of production and trade. Apart from incurred losses in plants, machinery and raw materials, the disorganization of communication and the dislocation of great parts of the population, valuable components of the production apparatus as well as other natural assets of the Austrian economy, classified as

433 so-called "German property," were lost to Austrian control and thus lost to the economy.

652 [727] In the foreground, however, was the organization of the currency and credit structure. Until November 1945, Allied Military schillings and the Reichsmarks of the former German administration formed the currency basis of the country. Approximately 7.7 billion Reichmarks and 1 billion Allied Miliary schillings were in circulation, representing an inflation of 850 percent above the 1937 level. This circulation, compared with the almost negligible volume of goods and the low production capacity, made the money practically worthless. Here, therefore, was where the first measures of reform had to be effected.

In 1945 the provisional government provided the first legal foundation for the reorganization of currency and the credit system by the law covering payments by banks (Schaltergesetz), the law covering public and private credit extension (Kreditlenkungsgesetz) as well as the "Notenbanküberleitungsgesetz," which reestablished the Austrian National Bank. It created therewith the preliminaries for an orderly banking and payment service, for the time being still under the statutory power of the then provisional government. With the "Schillingsgesetz" of November 30, 1945, introducing the first currency reform and establishing the schilling as legal tender, the three aforementioned laws were extended to cover the three western occupation zones, the country as a whole received a uniform currency and banking system.

The "Schillingsgesetz" and the conversion decreed reduced currency in circulation (paper) from approximately 7.7 billion Reichsmarks and 1 billion Military schillings to 3.3 billion schillings and the aggregate circulation (banknotes plus contingent liabilities of the National Bank) to about 7 billion schillings. Parallel with this--the first control of all deposits having been effected by the previously mentioned "Schaltergesetz"--occurred a further appropriate blocking of deposited means to restrict purchasing power and inflationary price rises.

652 453 Beginning March 7, 1946, the issuance of bank notes was subjected to Austrian control, the legal basis ensued through an amendment of the "Notenbanküberleitungsgesetz," June 30, 1946, which also promulgated the statutes of the Austrian National Bank as a bank of issue. With the enactment of June 25, 1946, the Austrian National

With the enactment of June 25, 1946, the Austrian National
Bank was authorized to control foreign exchange trans- 652
actions. For the time being the rate of exchange had 453
been fixed at the rate decreed by the occupation
powers: 1 dollar = 10 schillings and 1 pound = 40 457
schillings.

A gratifying step towards free foreign ex- 457
change relations was the release of blocked Austrian assets in the USA in 1946, and later on, the return of the gold reserve of the Austrian National Bank which had been transferred by the German administration. As a first step the United States had returned to the Austrian Federal Government 4,450 kg gold, representing a part of the gold reserve, which in 1938 amounted to 78,000 kg. On November 4, 1947, the Austrian envoy to London signed a protocol. According to its terms Austria was awarded an additional 26,187 kg fine gold by the Reparation Commission in Brussels.

With this substantial gold reserve on hand 652
the Austrian Federal Government progressed a step further with its currency policy and enacted the Währungsschutzgesetz (a measure to protect currency), reducing the aggregate currency circulation almost 40 percent. For the intended reform, aimed at reducing currency in circulation as well as funds deposited with bank and credit institutions, the cited federal law of November 19, 1947 (confirmed by the Allied Commission for Austria on December 4, 1947, and enforced on December 10, 1947), was important in the following three points:

(a) Through a reduction of the aggregate currency volume (money in circulation plus deposited funds) a corresponding reduction of prices, and, last but not least, a restriction of black market trades could be accomplished;
(b) The general business moral could be improved; and,
(c) Through a cancellation of the old blocked accounts (in accordance with the first laws covering currency policies in 1945) an elimination of economically untenable positions, and therewith, the first step towards a reconstruction of the credit system in the interest of the entire economy could be undertaken.

With the enforcement of this law a new trend 458
in financial matters developed. The inflationary influ- 652
ences prevailing until then were curtailed while, financially, the prerequisites necessary for the reconstruction of the Austrian economy were set up. Although the circulating means did not become scarce to the extent

458 originally anticipated, due to the prolonged interval
652 between the publication and the enforcement of the
law, the following months nevertheless did produce some economic results (lowering of prices, elimination of black markets and a general slackening of the purchasing psychosis).

727 In the meantime the occupation powers,
648 particularly the American and the British elements,
had introduced relief measures ameliorating need and
457 want among the Austrian population. One of the first was initiated by UNRRA, whereby, in connection with a number of special credits, a "subsistence level" was achieved. Additional assistance measures followed. On June 25, 1947, an agreement between the United States and Austria provided a new form of assistance, substituting for the UNRRA aid which was ending. For this Austria Assistance" about 85 million dollars were provided. With these contributions of foodstuffs, commodities and machines, it was possible to start the reconstruction of the ruined communication system and to restore a modest production line.

Additional alleviation was obtained from a credit granted by the British Government for purchase of consumer goods. In October 1947, the Export Import Bank at Washington, D. C., granted Austria a credit amounting to 13 million dollars, of which amount 8 million dollars were placed at the disposal of the heavy and metal industry, 4 million dollars at the disposal of the chemical industry for purchases of raw materials and as equipment, while the remaining 1 million dollars served other purposes (freights, etc.).

652 Of particular importance was the establishment
727 of a regular budget. The first federal estimates (1946-1947) were, in view of conditions, only of an emergency nature.

The item of occupation costs was from the start a rather burdensome one. Until May 1946 these costs were covered by an additional issuance of bank notes. Beginning June 1946, all expenditures not covered by current incomes (including occupation costs as well as costs arising in connection with the welfare of displaced persons) were paid for with short-term treasury bonds, taken by banks, or with cash reserves. Later
[651] (July 1948) the expenditures of the occupation costs were met fiscally by an additional tax (occupation cost tax) to the income and wage tax.

During July 1946, the parliament passed the 471 first nationalization law (see part A, III, paragraph b). This nationalized, in addition to enterprises of heavy industry, mining and shipping, the three largest Austrian commercial banks (the Creditanstalt-Bankverein [453], the Oesterreichische Länderbank A. G. and the Hypotheken- und Creditinstitut). With the federal law of March 26, 1947 (second nationalization [377] law), establishments and plants producing and distributing electrical energy were nationalized, because 90 percent of these establishments were already publicly or municipally owned.

During the years 1945-1946 only the greatest 433 difficulties were eliminated. A noticeable production increase, fostered by increasing imports of raw materials and food stuffs, occurred during 1947 at which time the coal situation was also eased and the crisis in the power sector could be ameliorated. The decisive turn of events in the economic consolidation, however, remained to be accomplished with the assistance of the Marshall Plan.

3. Special Problems in Austrian Reconstruction.

a) The question of "German Property."

At the end of the war, when Austria received her independence (perforce limited because of 471 721 occupation statutes), her economic situation had been basically altered in comparison with 1937. The economically and organically different set-up of the German Reich made a reorganization of the economic status necessary. Austrian production means were diminished further by transfers of private as well as public production establishments into German hands, particularly after 1938. This "German Property" became fateful in Austrian economy with the Potsdam Agreement of August, 1945.

According to the agreed terms of the Allied Powers, German reparations were to include German assets located in countries previously occupied or controlled by Germany; these assets were to be subjected to the control of the various Allied Powers relative to their geographic location (in Austria according to occupation zones).

Under this title more than 200 enterprises in Austrian territory, mostly in the eastern part of the country (among them the entire oil industry,

727 chemical plants, large parts of the electric, iron
471 and metal industry), has been classified as "German Property" and were confiscated. Affected also was the Erste Donau Dampfschiffahrt-Gesellschaft (First Danube Steamship Company, Inc.), inasmuch as this enterprise had also been classified as "German Property" under the terms of the Potsdam Agreement.

The nationalized plants and companies (provided there occurred no mitigations such as those later in the western zones) remain not only lost to Austrian economy but complicate the coordination of Austrian production sectors inasmuch as these enterprises, particularly those located in the eastern parts of the country, are no longer subjected to Austrian jurisdiction.

Legally, the control and administration of German assets in Austria was to be effected in line with the control agreement of the Allied Commission for Austria on June 28, 1946. Article V of this agreement provides that the question of the "German Property" has to be settled in accordance with the agreement of Potsdam.

Later on, the interpretation of the stipulations, covering the "German Property," was not handled uniformly by the occupation powers causing a different treatment of such assets in the various occupation zones, a situation which resulted in legal, administrative and economic consequences for the Austrian national economy. This diversity in interpretation also influenced the nationalization proceedings as far as the "German Property" was involved. The occupation element of the United States of America, desiring to make these assets available to the Austrian economy, transferred the largest part of the relative enterprises located in its occupation zone to the competent Austrian ministry. The latter, as a trustee, has to furnish periodical accounts and reports. The French occupation element (taking exception to nationalization legislation on enterprises falling within the scope of Article V, paragraph 4, of the new control agreement) found a solution by leasing such establishments individually. The British element formulated no special provisions but permitted the enforcement of Austrian laws with regard to "German Property" located in its zone. The three western occupation powers finally released simultaneous directions, stating that any disposal of German assets, be it by sale or by other means, was prohibited, while the Union of the Soviet Socialist Republics decreed the transfer of such assets to a special administration created for this purpose (USIVA, later USIA). In the eastern part of the country, therefore, enterprises representing such assets became "foreign administrative and economic enclavements" within the Austrian economy. 727 471

The definite solution of this question, important to and difficult for the Austrian economy, however, is reserved to the signing of an Austrian state treaty.

b) The "nationalization legislation." 471

In connection with the question as to the scope of freedom and economic relationships to achieve the highest possible degree of national economic productivity (which had been brought up for discussion in a number of European nations), the Austrian authorities were compelled to cope also with the ideologies and trends relative thereto, whereby compulsory issues had to be considered.

With her nationalization legislation Austria endeavored to follow a middle course, which, via a transfer to the government of ownership rights with stipulated compensations, nevertheless permitted management of the various (nationalized) enterprises under the same economic requisites as those ruling the private sector.

The scope of nationalization was fixed by two nationalization laws, i.e., of July 26, 1946, and March 26, 1947. Both of these laws expressly stated the names of the enterprises concerned. However, if not specifically stipulated, only certain enterprises and not entire business sectors were nationalized. The two nationalization laws differ insofar as, under the first, the stipulated enterprises and plants became ex lege (immediately) properties of the government, while under the second the establishments of the electric power sector were transferred by order of the competent administrative authority. The second nationalization law therefore is solely an organization and omnibus bill.

While the administration of the government's participations in nationalized industrial and electric power enterprises (according to the federal law of December 16, 1949, decreeing the discontinuance of 471 655

471 some federal ministries as well as the reorganization
655 of the sphere of action of others), is being taken care of by the federal ministry for traffic and nationalized enterprises, the administration of the nationalized commercial banks falls within the competence of the Federal Ministry of Finance. The nationalization comprises:

[453] 1.) The large banks (Creditanstalt-Bankverein, Oesterreichische Länderbank AG, and Hypotheken- u. Kreditinstitut);

[321] 2.) The most important enterprises of the iron and steel industry (Oesterreichische Alpine Montangesellschaft, Vereinigte Oesterreichische Eisen- und Stahlwerke A. G., Linz, Schoeller-Bleckmann Stahlwerke A. G., Vienna, Gebrüder Böhler u. Co., A. G., Vienna);

[316] 3.) The most important coal mines (Wolfsegg-Traunthaler Kohlenbergwerke A.G., Linz, Steirische Kohlenbergwerke A.G., Vienna, Lankowitzer Kohlen-Compagnie, Vienna, etc.);

[392] 4.) A number of important enterprises of the electric and machine manufacturing industry (AEG-
[393] Union Elektrizitätsgesellschaft, Vienna; Simmering-Graz-Pauker A. G. für Maschinen-, Kessel- und Waggonbau, Vienna, etc.);

5.) The Oesterreichische Stickstoffwerke A. G., Linz;

[316] 6.) The most important non-ferrous mining enterprises (Bleiberger Bergwerks-Union, Klagenfurt; Montanwerke Brixlegg Ges. m.b.H., Brixlegg; Kupferbergbau Mitterberg, Mühlbach am Hochkönig; Aluminiumwerk Mattighofen-Ranshofen);

[505] 7.) The Erste Donau Dampfschiffahrtsgesellschaft, Vienna;

[377] 8.) The large enterprises producing electric power; and, finally,

[315] 9.) The enterprises for the exploitation of crude oil.

With the enacted legislation the ownership-rights (re: corporations) or the assets and liabilities of certain enterprises (limited companies, etc.) or plants (branch establishments of enterprises located abroad) became the property of the Republic of Austria. This in turn implied also the transfer of the administration of the nationalized enterprises to the Austrian government, provided that such enterprises were not located within the Russian zone (USIA establishments) and therefore beyond Austrian control. The enforcement of the nationalization, however, is not completed because:

1.) Most of the enterprises nationalized under the terms of the first nationalization law represent "German Property," the definite settlement of which is left to the signing of a state-treaty; 471 655

2.) The "German Property" located in the American zone of Austria has been transfered in trust, whereby, in accordance with the terms of the trust agreement, no changes of proprietor status are permitted without prior consent of the United States occupation element;

3.) There is a binding contract of the federal government to enforce the nationalization laws covering enterprises belonging wholly or partly to citizens of the United Nations after settlement of compensation claims.

A decision about compensations also had to be left pending. Despite the written undertaking of the Austrian federal government to compensate the prior proprietors, it has not as yet been possible to fix such compensations for the following reasons:

1.) The three aforesaid reasons prevent, for the time being, a settlement of this question;

2.) The definition of the conception "German Property," as yet not clear, does not permit the definite fixing of the scope and the amount of such compensations;

3.) In consideration of the prevailing uncertainties of the nation, the date under which a calculation of the values of the confiscated enterprises has to be effected is still open and likewise the compensation form;

4.) Legal prerequisites, especially with regard to enterprises partly administered by an occupation element and partly by an Austrian authority, have not as yet been established.

The nationalized enterprises are continuing business under their former legal status, *i.e.*, as corporation and limited companies and under the same regulations covering enterprises of the private sector. Thus, for instance, the nationalized industrial enterprises are not accomodated with special credit terms for reconstruction purposes by the large nationalized banking institutions. They are subjected to the same controls and regulations as enterprises of the private sector, enjoying no privileges with regard to taxations, etc. They are exempted only from the payment of the property-tax. With regard to competition, they are further required to adhere to the same principles and 475 471 [651]

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475 regulations as privately owned enterprises.

If companies or enterprises, under the regulations of the corporation law, were for any reason not as yet able to install the required responsible executive managements (executive officers, board, stockholder meetings) the competent authority, in accordance with the terms of the federal law of July 26, 1946, installed public administrators. The privilege, however, does not apply to enterprises and plants working under their legally installed executive managements; such an existing status permits the government to introduce motions, by its delegated board members, only within the scope of legal corporate requirements.

[647] According to the federal constitutional law of June 16, 1948 (Rechnungshofgesetz), all nationalized enterprises are subjected to the accounting and business policy control of the Oberster Rechnungshof (superior accounting office of the government), which in turn is responsible to the parliament for rendering account.

By these means parliament wanted to prevent red tape in the commercially managed establishments.

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727 c) The reconstruction of the Austrian credit institutions.

Following the loss of Austrian sovereignty in 1938, changes within the great Austrian banking organizations occurred. The Austrian National Bank disappeared as bank of issue, its Vienna organization became a branch office of the German Reichsbank, the substantial gold and foreign exchange holdings as well as other assets were transfered to the latter, so that from 1938 to April 1945 no independent money and currency policy was possible.

Likewise, the nationalized banking institutions were confronted with structural changes which, after 1945, brought about problems of balance adjustments. Therefore, if the entire question complex and the enforcement of relative measures are to be ascertained, it is necessary to become acquainted with the developments which have occurred. Austria, having been reestablished as a sovereign nation at the end of the war, faced a greatly changed situation in comparison with 1937. The prior assimilation into the economically and organically different economy of the German Reich, caused a far reaching reorganization of the Austrian economic structure. What was needed after the political and economic disintegration of 1945 was, therefore, a basic recreation of the entire economic system, including (for reasons of monetary policy) the liquidation of the previously war-influenced German financial policy. In addition, it must be noted that in Southeastern Europe, previously representing a traditional Austrian interest and marketing sphere, political changes had occurred, making necessary write-offs of participations and accounts and a reorientation of previous relations. By having been made a part of the German Reich there occurred within Austria, because of the German methods in financing war expenditures, a substantial discrepancy between the amounts of money and goods available. On the asset side of the ledgers of the credit institutions special consideration was required for the so-called "Reichswerte" (bonds of the German Reich, treasury notes, treasury certificates), liabilities of the German Reich, its states and countries as well as of central and monetary clearing offices, the holdings of which increased rapidly during the first war years. They represented, as far as bonds, treasury notes and treasury certificates were concerned, mostly counterparts of deposits which had to be transferred to Berlin for conversion into such securities. That was done on instruction of German authorities in order to finance German war expenditures. At the cessation of the conflict these deposits, from a national-economic point of view, could no longer be considered covered, inasmuch as their counterparts became valueless or at best dubious as collateral. For reasons of the occupation zone division, at that time strictly applied, the "Schaltergesetz" was enforced only within the Russian zone, Vienna included.

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From a monetary point of view the war's heritage consisted of an oversized volume of money and, for the time being, of losses to owners of securities of the German Reich, i.e., the banks and industrial enterprises.

The first legal enforcements (the "Schaltergesetz" of July 5, 1945, as well as the "Schillinggesetz" of November 30, 1945) were primarily construed to reestablish orderly monetary conditions, i.e., the setting of an ultimate money volume, the establishment of a new currency and the elimination of excess purchasing power.

652 453 The "Schaltergesetz" decreed the reopening of the banks, closed since April 1945, and, for the time being, a blocking of 60 percent of old deposits (i.e., funds deposited prior to the reopening of banks). The remaining 40 percent could be used, within restricted limits, for vital economic purposes. The "Schillinggesetz" went a step further. Extending the variously applied monetary measures, enforced within the Russian zone, to Austria as a whole, it established the basis for the Austrian (schilling) currency under the sole control of the Austrian National Bank and blocked 60 percent of all deposits accumulated prior to December 22, 1945. [458] This was a monetary measure to effect a diminution of the upwards trend of prices through a curtailment of money in circulation. The remaining 40 percent were disposable, partly free, partly non-negotiable andpartly restricted to certain uses. Funds deposited after December 22, 1945, were free of any restrictions.

The third and most important step towards a currency consolidation occurred with the enforcement of the "Währungsschutzgesetz," which had to accomplish a two-fold task. One was the diminution of currency in circulation (notes in circulation plus free contingent liabilities) amounting to 9 billion schillings prior to the enforcement, by a skimming-off process of notes in circulation and by a cancellation (diminution of deposited currency) of blocked funds, accumulated with banks as a result of prior enactments. The other task was to prepare a settlement of the unbalanced statements of banking institutions, reflecting the war and postwar losses. Thus the prerequisites for a reorganization of the entire credit apparatus were created.

Particulars about the technical procedure of the curtailment of the currency circulation, in accordance with the "Währungsschutzgesetz," will not be discussed here. With regard to deposited funds, all blocked accounts established in accordance with the "Schaltergesetz" and the "Schillinggesetz" of 1945 were cancelled. The remaining, restricted disposable 40 percent balances, were converted into demands against the federal treasury. [To cover the demand against the federal treasury, following the skimming of accounts, the federal ministry of finance was empowered to issue "Bundesschuldverschreibungen" (treasury bonds) or to enter these demands into a newly created "Bundesschuldbuch" (record of federal obligations).] The various

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categories of accounts were simplified and the skimmed amounts transferred to new accounts which, excepting temporary limitations, were free of restrictions.

The diminution of deposited funds (skimmed-off and therefore economically non-covered deposits) as well as of the contingent liability account of the Austrian National Bank (details are not being mentioned) took effect immediately. The banking institutions were required by law to proceed at once with the skimming off of the accounts involved and to transfer the skimmed-off amounts to a special account of the Federal Treasury. In this connection there occurred a shift within the liability items of the bank balances, whereas the actual balance sheet settlement was to be effected after enforcement of the authorization, empowering the federal government (paragraph 22 of the "Währungsschutzgesetz") to stipulate the time, the manner and the amounts to be written off and credited to the Federal Treasury. The enforcement of this authorization has been promulgated with the approval of a draft submitted by the Federal Minister of Finance, covering the third and final regulation with regard to the delivery of values as per paragraph 22 of the "Währungsschutzgesetz" of November 19, 1947.

In accordance with the terms of this regulation the banking institutions are required to deliver such assets of the Federal Treasury to the Ministry of Finance, whereby, to relieve their balance sheets, they are permitted to deliver instead of money the aforementioned "Reichswerte" at their book or par value. The demands against central clearing institutions are of importance to savings banks and cooperative credit associations.

The enforcement of this regulation did not solve the reconstruction problem even if, for the time being, a welcome settlement of balance sheets was achieved. The complex of remaining problems required a great deal of further deliberations. The range of the compensation as well as the details of the technical execution are not being explored here.

As stated before, the scope of reconstruction requires that additional considerations be taken into account. They are sketchily indicated below.

While the first reconstruction phase, in compliance with the "Währungsschutzgesetz," brought about the definite elimination of blocked accounts transferred

652 to the Federal Treasury and written off against an
453 offset of securities of the German Reich, the second phase will comprise the elimination of the remaining odd lots of such German securities. In addition, it will be necessary to establish the sources of loss in connection with the war. This includes losses incurred mainly through sequestration of cash on hand as booty, securities and participations devalued to nil (excepting German securities) and, finally, through general losses incurred in accounts receivable. (Losses incurred in connection with credit lines guaranteed by the Reich assume a special significance.) All of these represent values which at several institutions comprise a special block of "domestic and foreign assets" to be settled within the scope of pending reconstruction endeavors.

[451] It remains understood, and this has been pointed out by the Federal Minister of Finance, that the settlement of the whole complex requires the establishment of true reconstruction balance sheets, a prerequisite to be accomplished only after enforcement of a law decreeing the execution of "Schillingseröffnungsbilanzen" (initial balance sheets in schillings). As a result of the yet unsolved problem of the so-called "German Property," the computation of final figures will certainly meet with difficulties, especially with respect to the large banking corporations. This follows because (1) a clear definition of the term "German Property" has not as yet been established; (2) it is impossible to compute the participation values of the enterprises concerned without knowledge of the exact computation date in the absence of a state-treaty; (3) in some cases the prerequisites as to the corporate status, especially with regard to enterprises administered partly by Austrians and partly by an occupation power, still need clarification.

Noteworthy, furthermore, is the varied handling of "German Property" within the various occupation zones. Besides the contemplated settlement of balances within the scope of the first phase, the compensation of the remaining "odd-lots of German securities" and the general settlement (since the enforcement of the "Schillingsgesetz") of blocked but not written-off deposits, only relative estimates will be obtained which ultimately, after the elimination of evaluation difficulties, will find a correction.

Although a settlement method covering the "odd-lots" of German securities and subsequently the

block of "domestic and foreign assets" has not been 652
designed as yet, some means to assure the functioning 453
of the various credit institutions undoubtedly will
be forthcoming.

The banking institutions, besides effecting a settlement of their balance sheets, will also be required to establish additional provisions in order to complete their economic as well as social-political tasks. In this connection the creation of a sufficient liquidity, the securing of an adequate capital structure and, last but not least, provisions for a corresponding amount of reserves to meet pension obligations towards their employees are more important. All these problems require generally and individually special solutions if the institutions are to accomplish their tasks satisfactorily within the national economy.

Thus, for example, with respect to inter- 457
national economic relations, the banking situation re-
quires a settlement of balance sheets according to inter- 453
national procedures so that the liquidity of the banks 652
and the coverage of accepted deposits be self-secured, inasmuch as the banks could be called upon to correct market fluctuations so as to assure continuity of work within the economic sphere. However, such a policy will only prove successful if they have disposal over sufficient means. Furthermore, with Marshall Plan assistance terminating in 1952, questions concerning capital and credit correlations will form the main aspect of European and international collaboration. Still greater tasks will develop internationally and foreign trade acceptance credits will find an ever increasing use.
Such a development requires that the banks, more so than [454]
other enterprises, have available corresponding capital to serve as a basis for credit extensions. In comparison with other business enterprises, which have invested their means in commodities or other goods, the banks, as a result of war and postwar occurrences, sustained larger capital losses. Thereupon shifts occurred which created a situation in which the relationship between means and deposits were no longer in conformity to internationally set standards (generally amounting to at least 10 - 15 percent of the balance sheet total). The procurement of these necessary means will be of great importance. Since prevailing conditions in the capital market do not permit the procurement of capital in the customary manner, the capital needed will have to be accumulated out of profits of the banking institutions, provided certain tax exemption measures are enacted.

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Closely connected with the procurement of capital is the problem of liquidity upon which, internationally, the repute of a banking organization rests. Therefore, considerations about reconstruction measures will have to include the problems covering the organic cohesion of public and private credit extensions and also currency essentials.

The problematical scope of the entire reorganization of Austrian credit institutions is an extended one containing, besides questions of the budget and currency problem, the problem of capital procurement. In addition to the tax-exempting provisions, it will be necessary to effect certain changes in corporation law. The credit institutions, especially the banks, progressively liquidating relics of a past era, will eventually reestablish their previous traditional business relations with the world's financial centers in the interest of Austrian economy and by doing so, as agents for a progressive productivity, provide the necessary means. The purpose of the entire reconstruction, last but not least, strives towards an increase of the national income.

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B. Marshall Plan Assistance as the Material Basis of the Austrian Economic Policy.

1. The Legal Foundations of Marshall Plan Assistance.

a) Austria's position prior to Marshall Plan aid.

[433] The first two years following the establishment of the Second Austrian Republic permitted arranging a basis for the progressive development of the economy. However, the country's position remained precarious due to insufficient agricultural and industrial output. Domestic agriculture at that time provided only 36 per cent of the "subsistence level" needed to feed the population not engaged in agriculture. Industry, which prior to the war achieved export excesses, was unable to finance its raw material requirements. This caused a need for imports, primarily of food and mineral fuels, which caused a deficit in the payment balance amounting to 2 billion schillings.

However, this deficit was entirely covered by relief shipments and credits. Below is a breakdown of the most important deliveries and credits received during 1947:

UNRRA Shipments (ended July, 1947)	447 Million Schillings	648
USA Congressional Aid (second half, 1947)	501 Million Schillings	457
USA War Department	338 Million Schillings	
USA War Surplus Assets	151 Million Schillings	
USA Surplus Credit	60 Million Schillings	
British 10,000,000 Pound-Sterling Credit	219 Million Schillings	
British War Surplus Assets	160 Million Schillings	
Private Charitable Organizations	130 Million Schillings	
Total	2,006 Million Schillings	

For Europe the turning point came during the summer months of 1947. On June 5, 1947, the American Secretary of State, Marshall, in a speech at Harvard University, sketched a program for the economic reconstruction of the European area following the ideas recommended by the late President Roosevelt in a message to Congress promoting the well-known four principles of freedom. This program was to replace the various individual assistance actions of the early postwar years by an economic reconstruction program based on the idea of self-help and intercontinental cooperation. Accepting an invitation of the foreign ministers of Great Britain and France, 16 representatives from 22 invited nations, including Austria, attended the European Conference in Paris from July 12 to September 23, 1947. There the principles of European cooperation (ERP) were promulgated.

The initiation of ERP, originally set for April 1, 1948, had to be postponed for technical reasons to July 1, 1948. Meanwhile, the precarious Austrian situation required the granting of interim assistance.

On January 2, 1948, the United States of America and the Republic of Austria signed an "interim agreement" which provided the extension of funds and raw materials amounting to $57,000,000. Shipments from

648 the USA included: 45,000 tons of grain, 3,000 tons
457 of edible fats, 5,000 tons of sugar, and 200,000 tons of other essentials. To cover the period up to July 1, 1948, Austria received an additional amount of $70,000,000 in interim aid.

b) The inception of the Marshall Plan and its terms.

The second Paris Conference of the European nations participating in the reconstruction program (ERP) took place on March 15 and 16, 1948, while a third conference followed on April 16, 1948. At the latter the organization for cooperation was initiated and implemented by the signing of a covenant and additional protocols. The aim of these agreements was the achievement of a sound, stable and independent economy by 1952. Article IV of the Paris covenant for cooperation on April 16, 1948, also contains provisions for mutual endeavors to create principles of payment which were to lead to a free (multilateral) clearing system. These endeavors led to the signing of a limited compensation and payment agreement (October 16, 1948) effective October 1, 1948 to June 30, 1948. It was later extended to June 30, 1950.

The ERP program for the 16 nations which signed the Paris covenant of April 16, 1948 (plus the German Tri-Zone represented by the military commanders and the Free Territory of Trieste), began on July 1, 1948, in accordance with the stipulations of the "Foreign Aid Act of 1948" adopted on April 3, 1948 (Public Law 472, 80th Congress, 2nd session, chapter 169, p. 2002). The assistance itself depended upon bilateral economic agreements between the USA and the participating countries (for Austria by the agreement of July 2, 1948).

[652] With the signing of this covenant the Austrian government (like all participating countries) obligated itself to increase, within the scope of Austria's possibilities, her industrial and agricultural production and to submit proposals relative to the implementation of projects to be executed under the provided assistance program. The government was further required to enact measures stabilizing the currency and balancing the budget and to cooperate with the participating countries in achieving an elimination of barriers to interstate trade.

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During the first year of the Marshall Plan assistance (1948-1949), out of a total of $4,875,000,000 allotted to participating countries for "Unconditional Aid," Austria received an amount of $217,000,000, and from "Drawing Rights" (conditional aid) $66,600,000 (out of $810,400,000). Austria had to make available to Greece, Italy and Sweden drawing rights amounting to $3,200,000.

To get an idea of the economic importance of Marshall Plan shipments for the Austrian economy, it seems most suitable to give the analysis of a one-year economic program. For this purpose the second Marshall Plan year has been chosen. The Austrian program for the year 1949-1950 was calculated to involve $252,200,000, of which $166,400,000 were provided under the direct aid and $85,800,000 represented drawing rights. The total imports for the period July 1, 1949-June 30, 1950 were estimated to amount to about $556,740,000 and were financed as follows:

		Million Dollars	
Marshall Plan--direct aid		151.95	27.3 per cent
Marshall Plan--drawing rights		82.20	15.3 per cent
Trade		295.70	53.1 per cent
Non-ERP dollars		23.89	4.3 per cent
Expenditures for freights and other "invisibles" were calculated at-		59.56	
They were financed as follows:			
Marshall Plan--direct aid	$14.45		
Marshall Plan--drawing rights	.60		
Trade	38.90		
Non-ERP dollars	5.61		
The Austrian payments balance for the second Marshall Plan year therefore totaled		613.30	

which were covered by means of:

Direct aid	166.40	27.0 per cent
Drawing rights	82.80	13.9 per cent
Trade	334.60	54.3 per cent
Non-ERP funds	29.50	4.8 per cent

Therefore, of the total imports during the economic year in question, 40.9 per cent were covered by ERP funds.

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457 These means were expended as follows: after
437 deductions for foodstuffs (direct aid: $68,000,000, drawing rights: $2,710,000), for agriculture ($14,390,000, drawing rights $7,300,000) and for tobacco (direct aid: $2,500,000), there remained for the industrial economy funds amounting to $66,260,000 out of the direct aid and $75,190,000 out of the indirect aid (total of $141,450,000).

457 Of this remaining total of $141,450,000,
648 $82,300,000 covered coal imports, of which $43,400,000 (or more than 50 per cent) were financed under drawing rights; $2,250,000 were taken from direct aid for a corner transaction to get coal from Poland. Imports of hides amounted to $11,300,000 ($4,000,000 were financed by direct aid allotments and $1,400,000 under drawing rights). Of these imports almost 50 per cent were financed with ERP funds.

For imports of raw materials and semi-finished goods (excluding coal), approximately $182,000,000 were set aside in the payment balance 1949-1950. ERP grants amounting to $55,000,000 covered 30 per cent of these imports. Including imports of coal, the percentage amounted to 38 per cent.

Of great importance were the imports in the investment sector. During the first year of the Marshall Plan only $12,000,000 (or less than 4 per cent of the allotted amount of $283,600,000) was provided for investment purposes. (During this period the need for foodstuffs was still great and represented 44 per cent of the total allotment.) The second Marshall Plan year, however, brought about an increase to more than 16 per cent, i.e., to $40,450,000 (direct aid: $31,600,000; drawing rights: $8,850,000) despite a reduction of 11 per cent in the total allotment ($252,200,000).

2. The Financing of the Reconstruction.

a) Counterparts and their use.

648 According to Article IV of the bilateral
652 agreement between the United States and Austria of July
457 2, 1948, covering economic cooperation, schilling proceeds derived from domestic sale of imported Marshall Plan goods must be deposited with the Austrian National Bank in a special account (in favor of the Federal Ministry of Finance). The government has utilization of these funds only with the approval of the ECA in Washington. In accordance with the Foreign Aid Act, No. 472 of the

80th Congress, such counterpart funds, however, can be released only for purposes of currency stabilizations or promotion of investments.

The development of the special counterpart accounts, as a result of payments for ERP shipments, up to December 31, 1950, is tabulated as follows. [Not to be confused with special accounts established prior to the Marshall Plan assistance (Congressional Aid, British credit, etc.) which are classified as non-ECA accounts.]

	Million Schillings
I. To special account as per ECA instructions (counterpart value of ECA shipments).	8,140.8
II. Processing results (proceeds account of the Federal Ministry of Finance deposited with the Austrian National Bank).	
a) Proceeds of sales	6,035.1
b) Price-gap and time-lag, covered by treasury bonds of the government	2,105.7
Total of II	8,140.8
III. Charged to proceeds account (II)	
a) Released for monetary purposes	775.0
b) Released for the financing of the Austrian investment program	3,536.5
c) Other releases	49.9
d) 5 per cent reserved for U. S.	368.2
Total of III	4,729.6
IV. Balance of the proceeds account (I minus III--including price-gap and time-lag).	3,411.2

Not included in these figures are the U. S. assistance actions for the period July 1, 1947-December 31, 1947 as follows:

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		Million Schillings
I. Proceeds of sales		449.1
II. Charged to special account:		
a) Released for monetary purposes	75.0	
b) Released for the financing of the Austrian investment program	363.1	
c) Other releases	3.6	441.7
III. Balance of the special account (ECA account)		7.4

In carrying out the program the Austrian Federal Government, upon request of the ECA Mission, is required to deposit to a special account (Post I) the counter value of ECA dollar expenditures at the prevailing rate of exchange. This deposit is made by the Austrian National Bank for the account of the Austrian Federal Government. The Austrian National Bank, which credits the deposit to a special account of the Federal Ministry of Finance (Post II), later receives reim-[435]bursement upon receipt of sales proceeds. However, since some of the imported commodities are sold at cheaper price levels than prevailing domestic market prices the amounts thus deposited to the proceeds account (Post II) are insufficient to reimburse the Austrian National Bank for its advance to the Austrian Federal Government (Post I). Furthermore, since the imports and the sales of procured commodities never occur simultaneously (time-lag), the deposited sales-proceeds usually amount to less than the counter values. The difference (Post II b) between the original Government deposits (Post I) and the sales proceeds (Post II) therefore represents partly a subsidy (price gap or ERP subsidy) and partly an advance (time-lag deposits) against later proceeds deposits. Although the advances are being repaid currently and no advanced amounts will be outstanding shortly after termination of the ERP, this will not be the case with regard to price-gap amounts. The latter represent Government subsidies advanced by the Austrian National Bank (covered by Federal Bonds). The financing of the Austrian National Bank cannot result in inflationary tendencies since the amounts, blocked in the counterpart account, are not considered in release provisions. Therefore, not being released, they do not return to circulation. At the termination of ERP it will become necessary to stipulate provisions covering the remaining government deposits of the special account (Post I). 652 457

The following periodic schedule shows the amounts released and the purpose of expenditure: 652 454

1948: Total releases amounted to 2.088 million schillings of which 396.7 million were released from ECA counterpart accounts. They were released to cover expenditures for investments of the extraordinary budget, industrial investments and housing constructions.

1949: Total releases amounted to 1.575 million schillings of which 1.425 million schillings were released from ECA counterpart accounts. They were expended to cover investments within the scope of the extraordinary budget and industrial investments.

1950: During the four quarters of 1950 releases amounted to 2,881.5 million schillings. The following amounts were released from ECA counterpart accounts:

	Million Schillings
1st Quarter 1950	none
2nd " "	951.5
3rd " "	1,230.0
4th " "	700.0
Total	2,881.5

This amount of 2,881.5 million schillings was expended as follows:

	Million Schillings
Federal investment program (extraordinary budget)	377.0
Industrial investments	1,681.0
Special reconstruction program	660.0
Others	97.5
Not yet specified	66.0
Total	2,881.5

Tabulated according to expenditures, the amounts withdrawn during 1950 from ECA counterpart accounts were expended as follows.

			Millions of Schillings
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454	I. Federal Investment Program (extraordinary budget)		365.
	Railroads	210.	
	Post	60.	
	Roads and bridges	60.	
	Public Buildings	17.	
	Federal theaters	18.	
	II. Industrial Investments		1,231.048
	Hydro-electric power	443.	
	Coal mines	50.	
	Other mines	2.	
	Iron and steel production	264.7	
	Metal industry	40.	
	Electrical industry	13.	
	Chemical industry	50.	
	Iron and metal works	65.023	
	Glass industry	14.12	
	Textile mills	90.2	
	Woodworking industry	33.03	
	Paper mills	149.99	
	Foodstuff industry	.25	
	Construction industry	.435	
	Extractive industry	4.2	
	Leather and shoe industry	4.6	
	Various other industries	1.5	
	Crafts	5.	
[654]	III. Special Reconstruction Program (funds)		524.3
	Agriculture	225.	
	Forestry	56.	
	Tourism	109.3	
	Construction of workers apartments	34.	
	General housing construction	100.	
	IV. Others		40.75
	Measures to step-up productivity	6.	
	Export promotion (Chicago Fair)	1.25	
	Exportfund Company	25.	
	Technical Assistance	1.5	
	Sawmill-school Kuchl	2.	

Of the total amount of 2,161.098 million schillings, 652 2,143.098 schillings were released from ECA counterpart accounts and 18 million schillings (for Federal 454 theaters) from non-ECA accounts.

It should be explained that during the last [451] part of 1950 a change in the accounting procedure of releases occurred. While previously the actual debit of the account immediately followed the publication of the release, this was no longer the case during the second half of 1950. The charging of the account and the payment of amounts now occurs in installments, partly for reasons of administration and partly for reasons of currency policies. Thus, for example, at the end of the first half of 1950, 100 million schillings were released for the construction of buildings. However, payments were effected only during the third (75 million schillings) and fourth (25 million schillings) quarters. Of the amount of 1.2 billion schillings released during the first few days of September 1950 only 88 million schillings had been charged at the end of the third quarter. Of the funds released in September some were not charged to the account even at the end of the year. The December release amounting to 700 million schillings (published before Christmas) was still on account at the end of 1950. Therefore the published releases are limited releases needing special "Release Letters" to receive payment.

b) Money and capital market.

The essential part which counterpart funds 454 (Marshall Plan aid) play in financing reconstruction 652 and replenishment needs becomes especially obvious if the Austrian capital market conditions, which is slowly 455 gaining momentum after capital losses sustained during the last decade, are duly taken into account. The 1950 annual report of the Vienna Stock Exchange indicates that the expectations held at the opening of the exchange in 1948 were only partly achieved at the end of 1950. The turnover in 1950 amounted only to slightly over 654.5 million schillings (at traded prices) of which 191.3 million schillings represented trading in government bonds, 282.2 million schillings in various other bond issues and not quite 179 million schillings in shares. Thus the market in stocks (the following detail reflects the necessity of interim financing of industrial monetary needs) developed a bearish trend although most of the corporations resumed dividend payments (depreciations averaging 25 per cent). Under pressure especially were the shares of "nationalized"

454 corporations reflecting open problems to be solved by the state treaty (German property, compensations, etc.). The combined index of free and nationalized enterprises bears out the development sketched above. There is a decrease from 363 in 1948 (March 1938 = 100) to 309.7 in 1949 and 244.7 in 1950, although the [434] purchasing power of money decreased from 1938 to 1950 by 5/6.

Under these circumstances it is not surprising that the stock exchange presently plays a small role in the raising of capital and the placement of new shares in the capital market. Thus, for example, during 1950 only four corporations increased their capital: The Österreichische Brown Bovery A. G. (from 2.4 to 3 million schillings), the Brauerei Schwechat A. G. (from 20.83 to 21 million schillings), the Semperit A. G. (from 10 to 30 million schillings) and the Wagner Biro Maschinenfabriken A. G. (from 5 to 10 million schillings).

[455] A similar situation prevailed in the bond market. The report of the Vienna Stock Exchange states: "In April 1950, when the 5 per cent Reconstruction Loan of 1949 was listed on the exchange at 85 (subscribed up to 324.6 million schillings), the investment market had partially adjusted itself to the prevailing new interest rates. Issues of the provinces and municipalities, generally bearing interest at a rate of 4 per cent, decreased in value from 100 per cent to 92 per cent. The market in debentures (up to the end of 1950 debentures and municipal bonds amounting to 596.4 millio schillings at par were circulating) had to overcome certain difficulties, since it is based on a 4 per cent interest rate and the change of quotations in connection with the credit extension to debtors represents a difficult problem...." During the summer months of 1950 a new type of debentures appeared. They matured after 6 years (previously they had been 40-50 years) with which, naturally, only credits extending for an approximately similar period of time could be financed. The amounts derived from such issues were primarily used for public investments.

It is a fact that presently bonds are quoted below par value since, besides the above-mentioned reasons, the scope of buyers is a rather limited one. From September 30, 1948 (the first time after the currency reform that particulars about the circulation of debentures and municipal bonds were published) to the end of 1950 only 95 million schillings in debenture bonds and

78.5 million schillings in municipal bonds could be sold. Buyers of debenture bonds were mainly insurance companies. 454

The raising of capital, instead of being accomplished through the customary way of issuing new shares or bonds, had to be effected by the extension of credit lines which, especially after the inception of Marshall Plan facilities, the banks extended on the strength of their liquidity reserves or by means of refinance possibilities created with ERP counterpart funds. 453

The total amount of credit outstanding with Austrian credit institutions at the close of 1950 amounted to 10,699.1 million schillings, including 1,012 million schillings extended during the last quarter of 1950. Components of the amount were for the following purposes:

	Million Schillings
Reconstruction (investment credits)	2,267.6
Commodity credits	702.0
Commercial credits	7,729.5
	10,699.1

Of this banks and bankers extended 7,703.3 million schillings through refinancing possibilities of the Austrian National Bank.

	Million Schillings
Reconstruction credits	2,267.6
Commodity credits	700.7
Commercial credits	4,735.0
	7,703.3

Considering that the amount of reconstruction credits (approximately 2.3 billion schillings) represents a transit item for the banks (the notes shall be converted into a bond issue at a later, appropriate opportunity), there remains the fact that, due to the slowly progressing creation of genuine (savings) capital, a certain discrepancy between the creation of new capital and capital need exists. This led to the adoption of credit policy measures during the first quarter of 1951. Up to the end of December 1950 total deposits with banks amounted to 9,469 million schillings of which 2,198 million schillings represented deposits in savings accounts and 7,271 million schillings deposits in checking accounts. Therefore, counterpart funds and self-financings are presently the main factors in industrial investments. 454 453

454 434 With the gradual diminution of the ERP aid, the raising of new capital gains significance. It is a question made particularly difficult inasmuch as prices rose on the world markets during the last half year and the decline in the purchasing power of the schilling caused by the lag in wages. (Running parallel is the sharp decline of the value of savings deposits.) A number of other factors retard the creation of savings capital: the lowered real wages, the long pent-up consumer demand of the broad masses, the lack of investment-seeking capital from insurance institutions which, as holders of collective saving, normally placed substantial amounts at the disposal of the capital market, the use of retained profits for self-financing of investments and, last but not least, the stress of fiscal necessities.

Naturally, Austria shares these developments with other European nations. Even France, the country of savers, according to latest reports has experienced a decline in savings to 4.3 per cent of the national income.

458 [652] Despite progressive credit extension (which is, qualitatively as well as quantitatively, being held under control by measures adopted during the first quarter of 1951), in contrast to other economically stronger nations, there seems to be no dangerous monetary development even though the political situation in the world in the fall of 1950 caused an increase in the volume of money and payments.

Development of the Currency Circulation at the End of 1950 (in millions of schillings)

[Calculation of the currency circulation in accordance with American standards: money in circulation plus contingent liabilities of the Austrian National Bank plus checking account deposits with banks, minus inter-banking and savings deposits.]

	Money in Circulation	Contingent Liabilities excl. Inter-Bank Deposits with the National Bank	Checking Deposits with Banks	Total of Currency Circulation
End of December 1949	5,721.0	1,221.6	5,987.5	12,930.1
End of September 1950	5,862.9	1,283.8	6,949.3	14,096.0
Increase during the first three quarters 1950	+ 141.9	+ 62.2	+ 961.8	+ 1,165.9
End of September 1950	5,862.9	1,283.8	6,949.3	14,096.0
End of December 1950	6,348.8	987.7	7,271.1	14,607.6
Increase or decrease during last quarter 1950	+ 485.9	- 296.1	+ 321.8	+ 511.6

During 1950, currency in circulation increased 1,677.5 million schillings (from 12,930.1 to 14,607.6); 627.8 million schillings of this amount represented an increase of circulating money (37.4 per cent) while the so-called "Release Program" originally estimated an increase of only 300 million schillings. This overdraft had its cause in lower receipts of ERP accounts as shown by the following figures.

In 1950 about 2,884 million schillings were received in ERP counterpart accounts. The disposals (releases of 95 per cent plus 5 per cent ECA administration costs) amounted to 2,330 million schillings so that the actual increase in ERP accounts

652 [436] totaled only 454 million schillings. In accordance with the original "Release Program" it should have amounted to 800 million schillings to neutralize other money-increasing factors. The minus-difference is based on the fact that the anticipated decrease of the price-gap subsidies was delayed, as a consequence of changes in world markets, in order to avoid too sudden changes in the price and wage structures.

[457] To summarize: in spite of and mindful of the world-wide economic fluctuations affecting her economy, Austria is carrying out reconstruction within the scope provided by ERP facilities. Aside from scheduled reductions any decrease in the real value of this assistance makes the accomplishment of her programs more difficult (especially the balancing of her balance of payments).

c) Prices and wages, elimination of subsidies, adjustment of exchange rates, increase of economic productivity.

652 [448] 185 With the progressing consolidation, resulting from ERP procedures, the Austrian Federal Government faced a number of problems. Aside from the aspect of the stipulated gradual decrease of foreign aid, these problems gained importance when Austria signed the European Payment Union (EPU) agreement in September 1950. She had entered upon obligations which could be met only if her economic policy was directed towards certain external economic goals (expansion of direct and indirect exports). This required certain measures aimed internally (balancing of prices and wages) as well as externally (adjustment of exchange rates).

The measures to be adopted within the framework of economic relationships had the following points in view.

1) Counteract inflationary tendencies according to timely needs;
2) Decrease step by step the system of subsidies for essential commodities, like edibles, coal and agricultural products, in order to achieve, besides a budgetary relief, "genuine" prices;
3) Bring prices gradually in line with world market levels;
4) Establish an equilibrium between prices and wages, in order to guarantee, in relation to prevailing prices of manufactured goods, an equitable

wage level. This goal will be achieved: 652

- a) by means of an appropriate currency policy, primarily through a gradual unification of 185 the exchange rate system (surrender of multiple exchange rates and adaptation of the schilling rate to the international purchasing power parity);
- b) restriction of compensation trades;
- c) adjustment of the price structure and adaptation of wages according to agreements of political and economical interest;
- d) increase of labor productivity (i.e., the produced quantity of goods per capita or working hour) to achieve a suitable relation between the costs of raw materials, accessories, plants, machineries and manpower, and the proceeds of goods and services.

Following the development of domestic price 457 and wage dynamics the exchange rate of 10 schillings 652 to 1 United States dollar, established by the Allies at the end of the war, became untenable in the early part of 1948. Despite the exceptional exchange rate to gain a larger share of export trade, compensation deals, made mostly at higher rates of exchange, were tolerated. Later, exporters were permitted to sell part of their foreign exchange holdings, which they were allowed for imports of raw materials, at an officially fixed premium. A private super premium was usually added, depending on import productiveness.

This resulted in a complicated system of exchange rates which varied from deal to deal. In addition, goods imported under ERP terms, insofar as they were not reckoned at domestic price levels, were sold at officially fixed prices. Thus the difference in the exchange relation between commercially imported goods and ERP imported goods became an import subsidy financed with ERP means, favoring partly the consumer and partly the dealer or the processing manufacturer. It delayed the shifting of needed imports to commercial channels and furnished in certain sectors the impression of an export ability which, however, was solely the result of the cheaper purchase price commodities imported through the ERP.

It was clear that this system of differentiating exchange rates had to be replaced by a "uniform" rate of exchange. The international devaluation wave sweeping Europe during September 1949, however,

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652 created a new situation. As a result of this devaluation process, the Federal Government, in November 1949, decreed a reorganization of the foreign exchange market. This was intended to be the first step towards the establishment of a uniform exchange rate system. The official rate of exchange, henceforth called the basic rate, was increased from 10 to 14.40 schillings per 1 U. S. dollar (in accordance with the devaluation of the English Pound Sterling). At the same time a variable premium rate of exchange, presently fixed at 26 schillings to 1 U. S. dollar, was established. Exporters were required to give up 40 per cent of their foreign exchange proceeds at the basic rate. The remainder they could retain for payment of their imports within a period of 60 days or could offer to the Austrian National Bank at the premium rate. Goods to be imported were classified into three groups. Those listed in schedule A were imported at the basic rate of exchange, those listed in schedule B at a mixed rate (21.36) and those appearing in schedule C at the premium rate. Goods imported within the scope of the ERP, commodities to be disposed at prevailing cheaper price levels, were grouped with the mixed rate. Service charges and capital transactions were dealt in at the premium rate.

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652 There remained, however, a conspicuous discrepancy in the import exchange rates which introduced disturbances into the cost-price structure of the economy, and these in turn influenced living costs and wages.

[649] Upon recommendation of the International Monetary Fund, a unification of the exchange rates had been considered at the time the multiple exchange rate system was promulgated, i.e., during November 1949. At the [654] same time, and in order to ease budgetary strains, the system of subsidizing essential commodities like food, coal and agricultural necessities (which up to now had been sold at cheaper levels because of the ERP imports or imports financed under the basic rate of exchange) had to be substantially curtailed. Since any increase in the prices of grains and grain products was likely to impair living costs and wages, difficult situations arose. As a result of the changed price and wage relations, certain price and wage adjustments as well as a partial reduction of subsidies (covering sugar, coal and agricultural products) had already been promulgated in 1947, 1948 and 1949. After due consideration between political representatives and economic interests, a fourth price and wage agreement was enacted on September 27, 1950.

Consequently, the Austrian Federal Government in collaboration with the Austrian National Bank decreed, effective October 5, 1950, a uniform rate of exchange for the traffic in goods (with the exception of some food items). This rate was identical to the mixed exchange rate of 21.36 schillings to 1 U. S. dollar. The basic rate of exchange was discontinued. For tourist traffic, traffic in capital and for certain kinds of services, the premium rate of exchange (26 schillings to 1 U. S. dollar) remained in force. Simultaneously, compensation deals in goods were prohibited, excepting a few to avoid losses of foreign trade interests. 652 457

In addition the Austrian National Bank effected, according to newly published bid-rates, a revaluation of its foreign exchange holdings and increased the price of gold to 22,834. schillings per 1 kg fine. Thus, the Nationalbank's holdings of foreign exchange were brought in line with the uniform rate of exchange in force for the traffic in goods while its gold holdings were revaluated as mentioned before. (The revaluation of the gold and foreign exchange holdings brought about a surplus value. Since, in accordance with the Notenbanküberleitungsgesetz, the weekly statement of the Austrian Nationalbank has to contain only gold and foreign exchange holdings necessary as cover, the excess holdings thus derived have been eliminated together with other heretofore not published assets. Meanwhile, until a decision about their employment is found, these excess holdings are accounted transitorily.)

A further development, this time upon an international platform, occurred with the signing of the agreement establishing the European Payments Union (EPU) on September 19, 1950, at Paris, within the scope of which Austria received from the ECA an amount of 80 million dollars to cover her trade deficit with other EPU member countries for the period July 1, 1950, to June 30, 1951. [648]

Although the preceding years had resulted in remarkable economic reconstruction, the Austrian authorities, nevertheless, were aware of the fact that a step-up of economic productivity was necessary to come as close as possible to the mark set by the ECA for 1952. In estimating Austria's endeavors one must take into account her heavy losses of national wealth, so that the effect of ERP assistance became visible only in 1950. This makes the balancing of her payments balance within the limits of the ERP program rather doubtful. 457 433

457 [511] 433 There is no doubt, however, that the desired higher standard of living requires greater accomplishments from the economy if, as is the case today not only in Austria but also in other ERP member countries, edible foodstuffs, raw materials and machinery are not to be continuously supplied by foreign aid. In this connection it is useful to recapitulate the value of such aid. Thus the total value of direct and indirect aid, congressional aid, interim aid, surplus goods, gifts, etc., amounted in 1948 and 1949 to approximately 300 million dollars yearly, an amount sufficient to cover the deficit of the payments balance up to now. In other words, the Austrian economy received more than 6 billion schillings which increased the gross national product available for consumption and industrial investments by 20 per cent. Foreign aid in 1950 amounted to 200 million dollars or 4 billion schillings and in 1951 to 100 million dollars.

433 As a matter of fact, production and productivity increased rapidly during the last years. However, this rapid increase was due to the extraordinarily low starting point. It is true that present industrial production exceeds the prewar level by 40 per cent, but it is a result of using about 50 per cent more than in 1937. At the end of 1950 the individual output index of both industrial as well as agricultural labor amounted to 90. Today, the task of increasing productivity rapidly is far more difficult since, in addition to diminishing foreign assistance, any reopening of idle capacities and procurement of additional raw materials and coal is almost impossible. It follows that every percentage of productivity to be gained requires greater efforts than before.

433 439 454 In connection with the above, there arises in Austria a specific coordination problem with regard to output gains already achieved in other nations, the question of cost computation. (Compared with Austria's present production ability the American, Swiss, Swedish, and English national economies, during 1949, furnished respectively 7, 4, 3 1/2, and 2 1/2 times as much goods and services per capita. This fact is intensified by the progressive industrialization of the previously agricultural countries of southeastern Europe.) If Austrian manufactured goods (as producers of foreign exchange, and therewith as guarantors of sufficient raw materials, employment and living standard) are to be competitive on international markets, the question of decreasing production costs per unit becomes imperative. Such a decrease, excluding developments beyond the control of

plant managements, can be achieved only through accumulation of an adequate yearly (savings) investment percentage (during 1950 investments in plants, structures, rolling-stock, equipment, etc., amounted to 20 per cent of Austria's national income, against 6 per cent in 1937; the 1950 investments were to a large extent the result of foreign assistance), as well as technical progress, rationalization of plant operations and adoption of modern psychological working principles. 433 439 454

Only such a procedure assures a genuine increase of the real income. However, whether an increased production output is followed by a decrease of prices or by an increase of wages (raising the living standard) or whether necessity demands a combination of both is problematical. [434]

On the basis of a favorable world-wide political scene it is hoped that Austria will realize her economic program as worked out with the help of international experts. Better technical equipment will lower the individual wage quota, thereby establishing a more favorable competitive basis. Thus, together with a transfer of skilled labor to production of export goods, the desired adjustment in the balance of payments will be achieved. In this connection the resettlement drive, initiated by the ERP, furnished a possibility to shift needed manpower to plants short of help. The higher real wages, resulting from an increased productivity, will then provide a basis for the accumulation of savings capital needed for additional investments. However, considering the special position Austria occupies, it will be necessary to grant her a breathing spell for achieving her economic aims. 433

d) Budgetary developments.

Within the scope of combined reorganization procedures, special attention is directed towards the balancing of the budget. Due to the large expenditures covering the reconstruction of public enterprises and administrative organizations damaged by the war and the increase in economic tasks of the government, e.g., occupation costs and the expenditures in connection with "Auslandsfürsorge" (welfare of the DP's, expellees, refugees), the consolidation of the budget (in spite of a rising national income) was only partly possible in 1949 and 1950 inasmuch as fluctuating demands exceeded narrow tax receipts. 652 727

652 While the regular budget of 1946 closed with a deficit of 736.8 million schillings as a result of high occupation costs, it achieved a surplus of 572 million schillings in 1947 due to larger tax-receipts. The balance in 1948 showed a deficit of 930 million schillings reflecting the burden of subsidies for food stuffs, while that of 1949 resulted in a surplus of 95 million schillings because of higher taxes and tariffs resulting from the third price and wage agreement. There was a positive development in the first half of the year 1950, resulting once more in a surplus of 705 million schillings up to August with a total revenue of 5.1 billion schillings. In the second half of 1950, however, the fourth price and wage agreement (end of September, 1950) burdened the overall situation by approximately one billion schillings.

The budget, including all expenditures for investments in the extraordinary budget, showed a deficit in all postwar years. This deficit was covered partly by the issuance of treasury bonds (up to the end of 1949 treasury bonds in the amount of 2.1 billion schillings were issued mainly to cover the occupation costs), partly out of the counterpart funds, and partly out of funds-on-hand. In addition to these a 5 per cent reconstruction loan (the first since the end of the war) was levied in 1949 which brought in cash receipts totaling 324.6 million schillings, out of which 136.1 million schillings were allotted for state subsidies. (In connection with the reconstruction loan of 1949 it was possible to cash in the 1938 State Loan bonds--which bore 4 1/2 per cent interest, second issue--in payment for new bonds, but only under the condition that no obligations should result for Austria out of loans which were raised by the German occupation forces.)

On the basis of currency considerations the expenditures of the extraordinary budget were separated into two parts: investments and extraordinary expenditures. In 1946 and 1947 a difference was made between these two categories so that "new" investments, such as electrification of the state railways or extension of the telephone network, were included under "investments." On the other hand, all reconstruction work, whether productive or unproductive (such as burdens of the transition period), was designated "extraordinary expenses." In budget estimates for 1948 and subsequent years a transition was proposed to prewar budgeting techniques (current ordinary budget plus the investment program); in this way the current budget distinguished between investments and extraordinary expenses, in accordance with whether they were classified productive or unproductive. The extraordinary budget centered, therefore, on the budget for investments. Since 1948 all remaining items (with the exception of reconstruction of war-damaged buildings and requirements of agriculture) were included in the current budget. 652

State expenditures have increased sharply since the end of the war through inescapable obligations (occupation costs and "Auslandsfürsorge") as well as through growth of investments. The much-critized overstaffing of the State administrative agencies, which was higher in 1949 by 23.6 per cent than in 1937, was caused by the increasing work of administration which could be reduced only gradually after economic consolidation. [727]

Non-personnel expenditures (Sachausgaben) kept pace with the expenditures for personnel since 1947; they have increased not only because of higher prices, but also have experienced a "real" increase. Among these expenditures, the so-called "social transfer payments"--pensions, unemployment insurance, rents, and child-welfare payments--have played a large role. The remarkably high amount in these categories may be explained by losses caused by the war. Approximately 169,700 disabled war veterans and about 340,700 dependents of war victims receive aid.

The costs of the State debt are comparatively low; no interest was paid up to 1947. Since 1948, however, the expenses for the state debt have increased more rapidly, reaching 309.7 million schillings in the budget of 1950, i.e., 5.1 per cent of current expenses as compared to 13.7 per cent in 1937. The German loans issued to finance the war were not recognized by the Austrian state; also, no interest has been paid for pre-war loans. Interests and amortizations are paid only on loans issued since the end of the war in Austria itself (bonds, reconstruction loan, state treasury bonds of 1947) and abroad (surplus credits, war asset credits, export-import bank credits).

The occupation costs, an item of heavy burden to the budget, were diminished due to the liberality of the USA in demanding no occupation costs since 1948 (paying for all their own expenses); the other occupation forces reduced the occupation expenses from 866.4 million schillings in 1946 to approximately 400 million schillings in 1950. But "Auslandsfürsorge" increased from 69.5 million schillings to 105 million 652 727

652 schillings in the same period. Of the occupation
727 costs the Soviet occupation force absorbs more than half of the total amount. Up to the fall of 1950 Soviet Russia received from current Austrian production about 1,094 million dollars as occupation costs and confiscation of Austrian properties abroad. (Help from the Western powers, especially the USA, has amounted to about 986 million dollars since 1945.)

655 Of the profit-making state-owned enterprises, which produced a surplus before the war, now
652 only those which actually constitute a state monopoly (salt, spirits) produce a surplus, while other state enterprises, the "Bundesbetriebe" (such as postal service and theaters) and the Federal Railways have a deficit. The deficits, however, are being decreased since 1946 by means of higher tariffs, dismissal of personnel and progressive rationalization (investments), from 17.7 per cent of expenditures in 1946 to 6.5 per cent in the budget estimate of 1950.

Out of the total revenue (based on the princi-
651 ple of net income) 80 to 85 per cent came from taxes
[652] levied since the end of the war. If one includes the income from various revenues similar to taxes (such as contributions to unemployment insurance, fees to child-welfare, etc.) the amount of taxes increases from 90 to 95 per cent, the remainder consisting of fees, interest and contributions from corporations and the income of the Postal Savings Bank (Postsparkasse).

The main support of the whole tax system since the end of the war is formed by direct taxes. Their part in the total tax income, in the years 1946-50, ranged between 44 per cent and 53 per cent as compared to 29 per cent in 1937; accordingly indirect taxes decreased in importance as compared to the prewar period. The income from the turnover-tax and from customs duties decreased from 42 per cent in 1937 to 24 per cent in 1950 as a consequence of structural changes in the system of taxation since 1938.

652 The Austrian treasury endeavors, in accordance with the bilateral agreement of July 2, 1948, to keep up the balance of the state budget and of the budgets of the federal countries (Länder) and municipalities, in spite of the enormous demands on public funds.

The main economic aim of the financial policy i to secure the highest possible employment and to continue the extension of all investments pertaining to economic productivity.

Preliminary Results of Transactions in 1950 as compared with the State Budget Estimate

Item	Preliminary Results of Transactions in 1950	State Budget Estimates for 1950	Difference
CURRENT TRANSACTIONS			
Expenditures			
State Administration	6,434a	5,849	- 585
Monopolies	321	210	- 111
State-owned enterprises	1,327	1,236	- 91
Federal Railways	2,525	2,322	- 203
Total Expenditures	10,607	9,617	- 990
From these:			
Wages and salaries	4,216	3,927	- 289
Discounts	2,791	2,632	- 159
Pensions	1,425	1,295	- 130
Non-salary expenditures	6,391a	5,690	- 701
Income			
State Administration	7,137b	6,096	+1,041c
Monopolies	517	354	+ 164d
State-owned enterprises	1,172	1,115	+ 57e
Federal Railways	2,252	2,052	+ 200
Total Income	11,078	9,617	+1,461
From public expenditures exclusive of occupation costs	5,284	4,517	+ 767
Occupation costs	472	420	+ 52
Other income	5,322	4,680	+ 642
CURRENT TRANSACTIONS SURPLUS INVESTMENTS	471	0	+ 471
Expenditures			
State Administration	942	304	- 638
Monopolies	7	7	
State enterprises	170	160	- 10
Federal Railways	507	607	+ 100
Total Expenditures	1,626	1,078	- 548
Income			
ERP-Special Funds	550	0	+ 550
Allotment for Federal investments	377	0	+ 377
Other income	18	0	+ 18
Total Incomes	945	0	+ 945
Investments: Deficit	681	1,078	+ 397
Deficit of the Budget	210	1,078	+ 868

a) Of which 383 million schillings occupation cost; 122 schillings for Ausländerfürsorge; 200 million schillings subsidies for foodstuffs.
b) Of which 472 million schillings occupation cost.
c) Of which 61 millions surplus income from unemployment insurance and 52 millions from occupation-costs contributions
d) Of which 126 millions from the State lotteries.
e) Of which surplus income of 41 millions from the Post and Telegraph Administration.

652 To this should be added that the surplus in expenditures for investments pertains exclusively to the extension of agriculture and forestry, tourist traffic facilities, the building of apartments for workers and the reconstruction of war-damaged dwellings. The expenditures for investment in institutions of state administration were lower by 2 million schillings than foreseen in the budget estimate for 1950. Of the 1,076 million schillings spent for the institutions of state administration only 377 million schillings were covered by ECA funds; the remaining 699 million schillings were covered by the surplus of current transactions (471 million schillings), other extraordinary revenues (80 million schillings) and from cash-on-hand. The consequence of this important diversion of state funds to cover investments, caused mainly by delays in alloting 70 million schillings from the ECA funds in the fourth quarter of 1950, was the creation of a long severe strain on the State's funds.

[654] The investments of 550 million schillings for the extension of agriculture and forestry and for tourist traffic, as well as for workers' dwellings and the reconstruction of war-damaged apartment houses, have been covered in full from ECA funds. For these investments there were only proposals in the 1950 estimated budget, but no credits had been provided since these investments were to be carried out only in accordance with allotments from ECA funds. The expenditures for these investments appear, therefore, as overdrawing on the estimated state budget for 1950.

e) Scope of the tasks of the Austrian banks in fulfilling the Marshall Plan. Financing of Marshall Plan deliveries.

In the technical execution of the Marshall
453 Plan the Austrian banks have a very important role.
457 They are obliged, in the first place, to give advice
652 on the financial feasibility of individual transactions before the applications of Austrian importers are presented for endorsement to the Federal Chancellory-ERP-Central Bureau, Vienna (Bundeskanzleramt-ERP-Zentralbüro, Wien). Moreover, they are in charge of opening letters of credit for single transactions which are covered by letters of commitment. They cash the schilling counterpart on the basis of documents which have been sent to and cleared by New York banks and notify the Federal Chancellory-ERP-Central Bureau on the carrying out of single transactions.

The stagnation of the capital market, which 652
makes the financing of comprehensive investments on 454
the open market difficult now, made special
forms of interim-financing necessary for Marshall
Plan deliveries. This task the banks and the National-
bank undertook through their financing techniques.

Agreement has been reached by the former 652
Ministry of Properties and Economic Planning, the Minis- 457
try of Finance, the Nationalbank and credit institutions 439
for the financing in schillings of Marshall Plan
deliveries. Inasmuch as outside means (credit) were 452
required, the following categories of credit have been 453
set up with regard to the different currency policies:

1) Credits for the import of raw materials (wool, cotton, hides, leather, metal, chemicals, etc.);
2) Credits for financing the cost of manufacturing (Umwandlungs kredite);
3) Credits to cover investment needs (Aufbaukredite).

For the first two categories the applicant for credit has to prove that all deliveries will take place within the scope of the Marshall Plan. To cover credits for raw materials provision is made for payments in goods with terms of three months, which may be extended three times to a maximum twelve months. (A special priority was provided originally for the delivery of textile raw materials of any kind and, furthermore, for hides, leather, furs and tannic acid, as long as the accounts were settled prior to June 30, 1949. This measure aimed to spare the buyers of goods losses in interest caused by delays in carrying out the Marshall Plan. As a concession a 60-day delay in payment of the amount in schillings was fixed so that in these special cases the validity of the credits was prolonged up to a maximum of 14 months.) The rate of interest for raw material credits has been fixed at 5 per cent net. The deliveries of semi-manufactures are treated in the same way if they are further processed by Austrian industrial plants. These letters of credit may be refinanced by the Nationalbank.

The covering of manufacturing costs (Warenumarbeitungs- und Umwandlungskredite) is provided for by ninety day drafts which may be extended twice, i.e., a maximum of nine months, if the buyer of goods can prove that these larger deliveries of Marshall Plan goods to be manufactured by him cause a sharp increase in the production so that additional means of production are necessary. The rate of interest is 6.5 per cent net. These drafts may also be refinanced at the Nationalbank.

452 The financing of credits for investments
652 (Aufbaukredite) is likewise provided by different
453 types of drafts (three-months validity) until such
time as definite solutions (consolidation) will be
[454] possible in the form of obligations on the money
market. The rate of interest is 4.5 per cent net.
The examination of such credit applications lies with
a commission consisting of representatives of the
Federal Chancellory-ERP-Central Bureau, the Austrian
Nationalbank, and representatives of those banks which
grant the credits. Final approval rests with the
"Kreditlenkungskommission," an advisory committee of
the Federal Government and created by the federal law
of July 3, 1945, to direct public and private credits.
Members are nominated by the Federal Government.

453 The following banks are presently handling reconstruction credits: Creditanstalt-Bankverein, Vienna, Innsbruck; the Bank for Carinthia, Klagenfurt; the Bank for Upper Austria and Salzburg, Linz; the Oesterreichische Länderbank AG, the Hypotheken- und Creditinstitut, Vienna; the Bankhaus Schoeller and Co., Vienna; the Arbeiterbank AG, Vienna; the Genossenschaft-Zentralbank AG, Vienna; the Girozentrale der österreichischen Sparkassen, Vienna; the Gewerbe- und Handelsbank AG, Vienna.

439 With the activation of the multilateral
457 balance within the frameworkof the European Payments
Union after October 1, 1950, some changes took place
652 in the financing of Marshall Plan imports. They, however, refer to the mobilization of the so-called "Initial Credit Position" which serve to cover the total deficit against all ERP countries. The carrying out of goods exchange on the basis of direct aid was not influenced by these changes.

To avoid difficulties in financing raw material imports from Marshall Plan countries, and in order not to restrict the potentialities of financing which the importers had been allowed up to this date, the Austrian Nationalbank decided, instead of refinancing goods imported out of the indirect aid (Drawing Rights), to discount ninety-day drafts of the banks. This forms the foundation of the means for financing goods imported from ERP countries. These drafts are issued by credit institutions and are drawn against the importer. The refinancing of these drafts takes place if the payee, in the opinion of the Austrian Nationalbank, possesses sufficient credit standing, and if the imports, as alread

explained, come from ERP countries and comprise such 439
goods as were, up to this date, to a considerable extent 652
under indirect aid and were refinanced previously
by the Nationalbank. There were special lists for all 457
goods in question.

The cashing of these drafts takes place under the same conditions which apply to imports of semimanufactures out of ERP funds; the Nationalbank discounts the incoming drafts at the prevailing bank-rate (now 3 1/2 per cent); other banks have a rate 1 1/2 per cent higher.

The total amount which all credit institutions can present in such drafts does not exceed the amount of the refinancing granted for financing imports out of indirect funds.

3. The Structure of Production.

a) Principles of industrial investment.

In accordance with the principles of ECA, ERP 652
funds are used only to finance investments which serve
to balance payments in the shortest possible time, that 454
is, investments which: 1) bring in foreign currencies 457
(by starting new or extending existing production of export goods); 2) save foreign currencies (production of goods important to internal supply, which previously had to be imported from foreign countries, or by improving their competitive position); 3) cause an essential increase in the total economic productivity, i.e., a reduction of production costs and increasing the ability of the Austrian economy to compete with foreign countries.

When hostilities ceased in 1945, most of the 433
industrial enterprises showed great impairment. This 727
was due to: 1) extensive destruction during the actual fighting; 2) confiscation through which valuable equipment for production was removed after the end of the fighting, whereby functional coherence of production was disrupted; 3) changes in economic aims. Before 1945 (not considering the aims of wartime economy) a large number of enterprises were structurally organized on a broader economic territory; after the war, therefore, the industry of Austria had to return to the more specialized industrial capacities of the pre-1938 period; 4) an acute shortage of capital caused by amounts necessarily written off as war losses, funds lost as outstanding claims, etc.

727 311 In other fields too there were noticeable losses and a decline in real capital. One might observe in agriculture, for example, a deterioration of soil owing to the shortage of fertilizers and cultivation during the war years, a lack of seeds, fodder and agricultural machinery as well as declining yields in forestry due to overcutting of trees, obsolescence and lack of means of transportation from the forests to the mills. The robbing of coal mines, failure to introduce rationalization and the forcing of unrealistic work in other mines (metals) give us a full picture of a declining economy.

652 433 185 434 Reconstruction of a productive national economy could be successful only if the economic forces specifically characteristic of the country were activated and coordinated to secure an optimum of the whole economic productivity. This presupposes a knowledge of possibilities based on an inventory of the internal economy and lining up problems according to their importance (to avoid mistakes in investments or overextension). It also presupposes establishing a time schedule for the financial fulfillment of individual projects with a view to the existing shortage in capital. The reconstruction of primary production, as well as the most important industries, have been carried out according to special plans which were worked out by government authorities in cooperation with interested industrial circles. Planning covered, in particular, production of energy, coal mining, the iron and steel industry, and ore mining and,the metal industry.

These plans are not limiting as to quantity or time but are a type of structural plans without time limitations, the realization of which is bound to certain financial or material possibilities. With the maximum supplying of internal requirements of energy, coal, iron, metals, etc., they intended to assure lower prices in the finishing industries. In this way a sufficiently high quota of exports should be obtained for a balance of payments. These plans form the theoretical basis for those investment programs which the Austrian government presents to the ECA in Washington and which are realized step by step with the help of the ERP funds.

Just as with other ERP participants it is Austria's primary aim in its investment policy to make the utmost use of all possibilities offered by the Marshall Plan up to 1952. In addition to the development of primary industry, the greatest effort is being made to bring the capital goods industry to the highest technical level. The direction of this policy is determined not only by the high demands for reconstruction within the country itself, but also by the rapid tempo of industrialization of European and non-European regions. If Austria is to be able to compete on the world market after the end of the ERP, it must not only close the gaps in its production but also provide for further undisrupted technical developments. It is clear that Austria has to divert annually from its national income a sufficiently high quota for investment (now about 21 per cent with the help of the ERP) in order to keep pace with other developments.

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In view of the time limitations and the gradual reduction of Marshall Plan aid, it will be the principle of the investment policy from 1949-50 on to give primary consideration to those big investments (for example, in energy and iron-ore industries) whose development was pushed by high capital expenditures and to have them achieve an economically and technically sound condition, if possible, within the period of the duration of the ERP. Basically, the counterpart funds are used for those investments from which payments are expected on the shortest terms so that, along with big projects, numerous smaller and medium sized projects which increase exports get under way. In disposing of counterpart funds, however, those enterprises which demand ERP-financing are forced to cover part of their planned investment out of their own funds (profits, private credits and various deductions).

The main items of the investment policy for future years, excluding the arrangements of the so-called "Long-term Program," have been fixed by the Reconstruction Program 1950-52, which was presented to ECA in the summer of 1950 and amended in the late fall of 1950, owing to price alterations. Based on the 1949 price level, the investments for the three year program had been set originally at 24 billion schillings. This figure was revised to 27 billion schillings in accordance with the change in prices and wages which occurred in October 1950. It was the aim of the partly transferred investments to create such conditions as to obtain an increase of production of domestic raw materials, to save foreign currency and to set at the disposal of the domestic economy those raw materials which can be found to a suitable extent in the country itself. As part of this plan, for example, the construction of four more power plants will be started, the output of coal shall be increased to 6 million tons from the present 4 million

652 tons, the production of iron and steel to 1 million
195 tons annually, the output of rolling mills to ap-
433 proximately 750,000 tons. Further increases in pro-
duction will be provided in: bauxite mining, aluminum
454 production, production of cellulose, paper and pulp.
In the same manner the export capacity of nitrogen plants (Sticksstoffwerke in Linz), one of the most important producers of foreign currencies in the Austrian economy, will be increased by 50 per cent. In the chemical industry additional investments will make it possible to start production of sulfuric acid and phosphate fertilizer. The single projects will be discussed in detail in another connection.

b) The renovation and rationalization of the primary industries.

The Austrian government holds to the principle (insofar as none of the theoretical considerations in the preceding chapter interferes) that in building up its program of investments cheap primary products lower the production costs in the finishing industries and this allows them to compete in the sharp competitive battle with other highly industrialized
655 European countries. Certain focal points of investments
have been formed, encompassing especially coal, iron and steel, ore mining, and the smelting industry as well as electrical power. These are mainly nationalized enterprises. For investment purposes in the years 1948 and 1949 they received a total sum of 1,627.4 million schillings out of public funds. Of this amount, 958.5 million schillings were reconstruction credits, 481.6 million schillings were capital payments of the Federal government, 31.2 million schillings were federal loans and 156.1 million schillings were credits guaranteed by the state. In 1950 a sum of 30 million schillings was provided in state capital contributions; in the same year (fall of 1950) the funds released from the ERP for the above-mentioned branches of industry totaled 133 million, 283 million and 418.5 million schillings used essentially as follows:

316 (1) Investments in coal-mining.
During the war the coal mines (predominantly
154 brown coal in Austria) suffered greatly in their development because of overproduction and neglect of needed renovation as well as delay in planned expansion. Within the scope of the Marshall Plan the necessary renovation and rationalization of operation, mining improvements, shaping of daily operations, deep mining,

mechanization and electrification are being carried out. A number of new shafts and research and boring operations are also being pushed. In 1950, 75 million schillings from ERP funds was allotted to mining. The total output of Austrian coal mines, about 92.7 per cent nationalized, was approximately 4 million tons in 1950. The output will be increased to 6 million tons annually according to the reconstruction program for 1950-52. 316 454

(2) Iron and steel production.

The structure of the iron and steel industry after the war was essentially different from that of 1938. While the capacity of blast furnaces and steel plants (and to a degree also of steel foundries, forges, gross rolling works, coke ovens and finished steel operations) has increased, ingot operations and medium and fine quality plates (especially rolled metals) have suffered in their capacity and in their functional coherence by removal of equipment (Demontage). In addition to this a large part of the means of extraction and transportation at the Erzberg in Styria, the modern electric gross rolling works at Donawitz, as well as various items of equipment in the iron and steel works (particularly that for the production of rolled metals) has been lost. On the other hand, plants which were only half completed and too big for Austrian industry (such as the six blast furnaces at Linz) had to be taken over so that there was an over capacity of raw iron, steel castings and forging items. The planning for the iron and steel production was worked out by the federal ministries in collaboration with experts of the steel industry after extensive and careful exploratory surveys. They aimed to carry out modernization and completion of the steel works so as to balance future production with the expected sales; utilize the existing works to the highest extent possible and moving of workers from one place to another would be avoided; accomplish the necessary completion of plants for overall production and the closing of production gaps; modernize obsolete plants in order to get more and better economic production. The following considerations were taken into account: solution of the problem of the distribution of production of commercial steel and gross-rolled steel in the two largest Austrian plants (the Oesterreichische Alpine Montan-Gesellschaft in Donawitz and the Vereinigte österreichische Eisen- und Stahlwerke AG in Linz); balancing of production programs of the four large Austrian steel plants (Gebrüder Böhler und Co. A.G., Schoeller-Bleckmann of the Alpine Konzern in Donawitz and in 327

327 Judenburg, on the other hand.

While the annual production of raw steel amounted to 650,000 tons in prewar years, there must be an increase in this amount to 1 million tons annually by 1952 (that is, after the end of the Marshall Plan). This takes into consideration demands and the total demands of Europe for steel. Accordingly, the investments were balanced as follows:

(a) The increase of iron-ore production to approximately 2.2 million tons a year at the Erzberg (Styria), at the Radmer near Hieflau and at Hüttenberg (Carinthia). (This project is one of the biggest in the investment programs.)

(b) The renovation and modernization of steel works. To secure the full utilization of raw-steel production, gross rolling mills and tin plate works were established or renovated. To mention only some of the big projects: the renovation of the worn-out Block-Trio rolling mill at Donawitz (Alpine Montan-Gesellschaft) by a continual billet-rolling mill; the building of a cold-band rolling mill at Krieglach (Alpine Montan-Gesellschaft); the plate works, the building of a five-sectioned broad band rolling mill, the coal rolling mill at the Vereinigte österreichische Eisen- und Stahlwerke AG at Linz; the refined steel rolling mill at the Schoeller-Blackmann Stahlwerke AG in Hönigsberg near Mürzzuschlag (where also a plant for the production of railway materials will be renovated); the extruding press and wrought-iron press at Turnitz; a plant for the production of deep mine drilling tools and equipment, the new sheet rolling mill and the rod mill at Kapfenberg (Gebrüder Böhler und Co. AG). (The new plant in Donawitz began operations in 1950. It is valued at $7,380,000. For the rest of the
[652] iron and steel industry 274.7 million schillings were allotted from ERP funds. This represents 37.8 per cent of the 700 million schillings ear-marked for the investment program for 1950-52.)

(3) Investments in the metal industry, ore mining and smelting.

This branch of industry was partly war-damaged,
327 partly confiscated "German Property" by the occupying
316 powers or dismantled as war industries. Thus a complete
328 renovation was necessary in which not the least concern was the regard for supplying the required raw materials for the industries of finished and final products. Another aim was to defend these industries, which depend so much

upon the world market and upon reactions in periods of crisis, to keep iron mining within reasonable limits and to prevent social and economic dislocations.

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Planned investments have been carried out within the last few years in iron mining, smelting and in the metal industry. In the lead industry (Bleiberger Bergwerksunion) the extension of mining has been taken up again through mechanization of mining operations and the extended supply of electrical current; in smelting the utilization of various by-products (Raffinade) has been extended. As a first step in tin smelting, and to cover the urgent demands for sulphuric acid, the Bleiberger Bergwerksunion has started to build a smelter and in connection with it a plant for production of sulphuric acid. The plants will be ready for production early in 1951. Upon completion of the first stage of this project the plants will produce approximately 15,000 tons of sulphuric acid annually as compared with an annual total demand of 55,000 tons. To utilize the by-product zinc-ore the building of a zinc-smelting plant is projected (with an annual capacity of 10,000 tons of metal). There is a demand for about 12,000 tons of copper annually in Austria. Approximately 2,500 tons of this amount may be reclaimed annually from utilizing scrap metals. Copper mining is concentrated at Mitferberger Kupferbergbau and at the Bergbau in Mühlbach, am Hochkönig; these works alone contain the potentialities of further production. It is intended to push the mines to a depth of 120 meters. Furthermore, the capacity of mining equipment shall be increased, including dressing machinery and other mining tools; thus the production of mining tools of all types will increase from 6,000 to between 11,000 and 12,000 tons a month, corresponding to an annual increase in the amount of copper to approximately 2,750 tons. To smelt the by-product ores of this mine and other minor mining sites the erection of an electric-reduction oven at the Montan Werke at Brixlegg (Tyrol) has been proposed, capable of producing up to 15,000 tons of concentrates. i.e., 4,000 tons of copper. Moreover, the erection of extensive electric installations and high-tension long lines as well as the erection of low - frequency smelting ovens will be undertaken. Also the capacity of electrolysis will be increased from 5,000 to 6,000 tons of cathode copper per year. In a similar way nickel-vitriol will be produced.

328 316 It is thought that in the light-metals sector (production of aluminum) the bauxite mines at Unterlausse (on the frontier between Styria and Lower Austria) will be extended to obtain at least the necessary raw materials for production. In accordance with the increase in the total European aluminum production required by the OEEC, Paris, Austria will endeavor to increase aluminum production in the smelting plants of the Vereinigte Aluminum Werke Ranshofen and in the plants at Lend of the Salzburger Aluminium Gesellschaft m.b.H. (up to 30 and 10,000 tons a year, respectively).

The production of non-finished metal products shall be extended by the completion of a light-metals plant of the österreichische Metallwerke A.G., the construction of which is already far advanced and by the project of a heavy-metal plant of the same firm. These plants are designed to overcome the bottle-neck created by the loss of the plants for non-finished metal products (Krupp in Berndorf and the Enzesfelder Metallwerke). For the Metallwerke Plansee Gesellschaft m.b.H., Reutte (Tyrol), the erection of a plant for the production of molten molybdemum has been planned; in addition, the erection of heavy presses, granulating and sharpening machines for the production of heavy metals as well as of special electrolytical methods for the production of hard metal alloys (Diamantmetal-legierungen) is proposed.

[352] In the scope of the investment program 1950-52 investments, 131.3 million schillings have been mobilized from counterpart funds for these industries. Of this amount approximately 40 million schillings (30.5 per cent) already has been allotted.

c) Investments in the electric industry.

377 [127] A large number of machinery units and steam-power plants were destroyed or lost by the war. The Austrian economy, therefore, could recover only very slowly in the years 1945, 1946 and 1947, particularly because the supply of energy was definitely insufficient in the months of water shortage. Since 1948, supported by the Marshall Plan, remarkable progress has been made in supplying energy within the economic planning for electricity. Austria tries to overcome the existing difficulties, which arise out of the rapidly changing demand for current on the part of industry, in two ways: (1) by the extension of storage facilities and of caloric

installations insofar as there are secure and sufficient supplies of coal (or insofar as new supplies can be exploited, such as those at St. Stefan im Lavanttal/Carinthia); and (2) by the extension of running water plants, or by stream diversion for the better utilization of existing storage facilities as well as by the reconstruction of war-damaged steam power plants (such as at the Vereinigte österreichische Eisen- und Stahlwerke A.G., Linz). The water power facilities, which are capable of extension, are estimated at 25 to 30 billion kwh (or even more).

In the course of carrying forward the development of water-power plants and of caloric-power plants since 1937, their capacity has increased by more than seventy per cent. The annual production amounted to 1,962 million kwh in 1946, 3,310 million kwh in 1949, and 3,717 million kwh in 1950.

[652] Of the 1,410 million schillings provided in the investment program for 1950-52, 571.5 million schillings (40.5 per cent) was allotted to the development of energy in 1950.

Important huge projects in the hydro-electric field which are now under construction and already far advanced are: the Ennskraftwerke, the Draukraftwerke, and, most important, the Tauernkraftwerke where progress on the Limberg-Sperre proposed for 1949-50 exceeded plans. The latter is one of the largest dams in Europe to cost approximately 250 million schillings. It is to be finished in 1952 and will be the main dam of the Kaprun-Tauern system. Part of the storage dam was made ready as early as 1949 and, with the installation of the second set of machinery in the power plant of the main dam, brings about an essential means for overcoming the exceedingly high winter demands for electricity. In 1950 alone 180,000 cubic meters of cement were poured into the construction of the Limberg-Sperre, thus making it possible to store approximately 61 GwH in the winter of 1951-52. The stages contemplated up to 1952-53 foresee in hydraulic water power an additional capacity of 346.5 megawatt as compared to a capacity (in million kwh) of 612.6 in winter and 1,071.4 in summer--a total of 1,684.0 for the whole year. The caloric power plants under construction are expected to bring an increase in capacity of 156.2 megawatt in the same period. The single projects are distributed over the whole federal territory with the bulwark located in the western federal countries. In addition, there is an extension of overland lines and high tension installations and other energy facilities.

d) Other industrial sectors.

652 [393] Thirty million schillings were allocated in 1950 to the investment program of the electro and cable industry. However, only 13 million have been disbursed, while the rest was carried over to 1951. Although the program could not be fully carried out, it was possible to make some necessary improvements and modernizations in this branch.

[387] Of the means provided by counterpart funds (73 million schillings) the chemical industry was allocated 23.1 million schillings as late as December 1950. The major part of investments in this industry was allotted to the nitrogen industry (the nationalized Stickstoffwerke A.G., Linz) which is scheduled to receive a total investment of 45 million schillings. In the last quarter of 1950 a fertilizer bin with a capacity of 50,000 tons was made ready and put into operation. Moreover, an installation for the production of ammoniated-sulphate with a capacity of 95,000 tons annually will be constructed and put into operation in the summer of 1951. The nitrogen industry is one of the most important earners of foreign currency in Austria.

[289] The Austrian pulp and paper industry (one of the oldest and most efficient of Europe) is to receive a total of 490 million schillings for modernization according to the investment program 1950-52. Of this, 220.2 million schillings (70.2 million schillings, however, as late as in December) were allocated out of ERP funds in the year 1950. The counterpart funds and the plants' own funds were used to extend existing boiler rooms and work space and to build new ones. In the same way boilers, bleaching-machines and installation of new paper mill machinery to replace old units were provided. Paper and pulp production has reached the prewar level and can compete in the export market despite sharp competition.

[288] The Austrian textile industry received 90.2 million schillings in 1950 from ERP funds. It was used together with its own funds to provide new machinery.

323 652 For the extension of the glass industry a total of 95 million schillings was provided out of counterpart funds. The glass industry received 14.1 million schillings in 1950 and, within the scope of the release for December (which, however, will be effected as late as in 1951), 8.4 million schillings.

Part of the proposed projects have been completed 323
and remarkable results obtained already. This in- 652
dustry was bolstered greatly by refugees from
Czechoslovakia.

Within the scope of the investment programs [362]
100 million schillings were allotted in 1950 to the
erection of general dwelling units. In addition to
a sum of 11 million schillings provided out of public
funds, 34 million schillings were allocated for
erection of workers' dwelling units. (The proposed
amount in the three year period for workers' dwelling
units was 85 million schillings.)

e) Investments for agriculture and forestry.

Damages caused by the war to this important [241]
source of supply (through exhausting the soil, lack of
fertilizers and pest control, overcutting, etc.) can
be restored only gradually. Because of the increased
use of tools of production, financed by ERP funds,
it was possible to reach a higher gross production
value in the years 1948 and 1949. However, it still
lagged behind the volume of industrial production
which by 1949 had exceeded the prewar level. The [362]
higher production in agriculture in 1948 and 1949 made
available bigger supplies of foodstuffs for city
dwellers and also made it possible to increase the [231]
decimated livestock and improve it. Thus, gaps in
supplies of milk, meat and fats could be filled in.

These improved results would not have been [648]
impossible without the ERP aid. In the first plan-
year, Austria had at its disposal a total of 156
million dollars (or 57 per cent of the total amount of
the ERP aid) to increase the production in agriculture,
small business and industry. A sum of 18.7 million
dollars was allotted to agriculture and supplied
139,000 tons of fodder, 189,000 tons of fertilizers,
4,200 tons of seeds, as well as agricultural machinery
and veterinary supplies amounting to 1.1 million
dollars. In the second year of the plan agriculture
and forestry received approximately 25 million dollars
for the import of tractors, caterpillars, threshing
machines, reapers, motorized plows, disk harrows, re-
placement parts, milk separators, and machinery for
soil treatment (and also to finance means of conveyance
and facilities for forestry).

Up to the end of 1949 approximately 9,000
407 agricultural machines, with a total value of 31.5
474 million schillings, could be bought out of counterpart
funds. Through the formation of agricultural machine
cooperatives (about 33) even medium and small-sized
farms were able to share in the advantages of techni-
377 cal modernization. The progress of electrification
in rural areas supplied light and current to 4,800
farms. Storehouses and freezer lockers have been
built in fruit producing areas. In addition, dairies
and cheese making plants have been erected from ERP
funds.

652 Further investments in the agricultural
sphere are being carried out in accord with the invest-
241 ment program of 1950-52. For these purposes 270
million schillings were released from counterpart
funds in 1950 (i.e., 43.6 per cent of the 620 million
schillings provided in the agricultural priority pro-
gram, or 34.6 per cent of the total of 780 million
schillings provided in the whole program).

439 In forestry (exports), which is of paramount
importance to Austria, the approximate prewar level of
313 wood and timber output and supply has been achieved
through various rationalizations and especially better
means of transport and better roads. In 1948 the
timber output was 8.24 million cubic meters (Festmeter);
in 1949 already it was 9.24 million cubic meters; in
1950 the output could be increased to slightly over 10
million cubic meters.

The increasing production of timber and the stoppage of exports of undressed timber made it possible to supply sawmills and timber finishing plants with bigger quantities of wood in 1949 and 1950 than prior to the war. In 1949, 2.50 million cubic meters of whole timber were planed. In 1950 the amount was 4.41 million cubic meters as compared to 3.14 million cubic meters in 1937. The paper, cellulose, wood fiber and pulp industries could be provided to an increasing extent with all necessary raw materials (especially wood pulp); thus, covering not only the domestic needs but also enabling Austria to gain a foothold in former export markets.

[652] The forestry and sawmill industry received 90
million schillings in 1950 out of counterpart funds and,
in addition, 22.5 million schillings in December 1950
to be carried forward for use in 1951.

f) Investments for the federal railways and the post and telegraph service.

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The Austrian federal railways received 210 million schillings in 1950 to carry out planned investments. Especially mentioned should be: the Semmering tunnel financed in 1950 by ERP counterpart funds, the Prebichl tunnel, the Tauern tunnel, the Danube bridges at Tulin and Krems, the Inn bridge in Brixlegg and the Nordwestbahn bridge in Vienna. These high allocations to the federal railway system were necessary to enable the whole transport system, which was heavily damaged by war action and dismantling, to keep pace with the recovery of the national economy. Gradual renovation of the rolling stock, restoration of road beds and tracks, building of bridges, installations for freight, repair of railway shops and track installations (such as signal houses, etc.) were necessary to fulfill the requirements of the economy.

The same consideration holds true for the Austrian post and telegraph administration, which received 60 million schillings from counterpart funds in 1950 and for which another 15 million schillings were reserved by the December grant. The postal system was able to carry out most of its projected plans. In particular, the transfer of the planned coaxial cable was accomplished. Damaged district cables were changed or transferred in the course of installing the automatic telephone system. Various automatic telephone central offices were enlarged and two new trunk exchanges built. [205] [206

III. AUSTRIA'S POSITION IN EUROPEAN ECONOMIC INTEGRATION

A. The Structure and Development of Foreign Trade

1. General Developments, 1945-1949.

Although exports in 1948 and 1949 could be increased, they did not cover more than 51 per cent of the total imports in 1949. The value of the exports in 1948 was double and in 1949 almost four times as high as that of 1947. This sharp increase is due partly to price increases, but at constant prices, too (basis 1937), the 1947 exports were exceeded in 1948 by 95 per cent and in 1949 by 165 per cent. The export volume, therefore, has increased more than the services of the other branches of the economy. However, it was still below the prewar level in 1949. Based on the quantum index 1937 = 100 as worked out by the Institut für Wirtschaftsforschung the level in 1947 reached only 70.3 per cent.

Development of Exports
(According to Statistische Nachrichten and the lists of the Oesterreichisches Institut für Wirtschaftsforschung.)

	1937	1947	1948	1949
Categories	Value in Millions of Schillings			
Livestock and foodstuffs	51.0	19.2	32.6	33.0
Raw material	363.9	202.5	637.2	1275.2
Finished goods	802.0	620.7	1313.9	1920.3
Total	1216.9	842.4	1983.7	3228.5
	Volume Index Figures (1937 = 100)			
Livestock and foodstuffs	100	13.8	16.7	15.6
Raw material	100	21.4	50.8	77.5
Finished goods	100	29.6	54.2	70.5
Total	100	26.5	51.6	70.3

Exports were primarily timber, paper, iron ore, iron goods, and nitrate of lime and ammonia. Austria, for the most part, exported raw materials and semi-manufactures. In the prewar period approximately 65 per cent of the exports were finished goods, but this proportion has declined since 1945 and was only slightly higher than the quota for all other export goods at the end of 1949. It should be taken into account that almost all countries, in their commercial agreements, demand a certain percentage of the Austrian export goods to be raw materials and semi-manufactures. Only under such conditions are they prepared to make concessions for the import of finished goods. On the other hand, the Austrian commercial policy is interested most in the export of products of high labor content. As to the mode of fulfillment of these agreements, the compensation contract system prevailed in the first years after 1945. Later a kind of mixed system arose which provided for fulfillment of exchange of goods on the basis of clearing through a series of commercial agreements (without excluding, however, the compensation feature). In the structure of commercial agreements the tendency toward the clearing system exclusively is quite evident since 1949.

The regional distribution of exports gradually improved. In the period immediately after the war the traffic in goods was restricted mainly to the nearest neighboring countries, especially Switzerland, Germany, Italy, and Czechoslovakia. Since that time it has developed in a concentrical pattern to more distant areas. In the years 1946-1949 the proportion of the exports to immediate neighboring countries sank from 80.3 per cent to 61.2 per cent, 52.2 per cent and 50.3 per cent; and the proportion of non-European areas increased from 7.9 per cent to 10.3 per cent and 13.9 per cent.

In 1948 and 1949 the increasing importance of overseas areas to Austrian foreign trade was due to the progressing normalization of world trade conditions and the systematic extension of commercial agreements. Since one could observe, however, a sharpening of competition on the world market since 1949, it was the aim of the Austrian economic policy to lower production costs by progressive investments in rationalization of enterprises themselves, in higher utilization of their capacities, and in the transfer of production powers from consumer goods to export goods. It is a fact that exports to the ERP countries, which received 69.5 per cent of Austrian exports in 1947, sank to 66.5 per cent in 1948 and to 59.9 per cent in 1949.

By this relative reduction of exports to ERP countries the east and southeast European countries profited (and to a lesser extent the overseas areas). The exports to countries of the East bloc, including Russia, increased proportionally from 19.6 per cent in 1947 and 1948 to 25 per cent in 1949. This did not reach the prewar level of 33.2 per cent, however. Better conditions also prevailed for exports to the Near East. In the southeast of Europe German competition was to be observed to a rising degree.

Imports in the last few years are almost on prewar level. The official statistics on commerce show the imports in the years 1947-1949 as follows.

Commercial Statistics on the Development of Imports (excluding imports from direct aid, relief, and surplus goods)

Categories	1937	1947	1948	1949
	Value in Millions of Schillings			
Livestock and foodstuffs	404.8	203.8	446.2	925.4
Raw material	620.2	719.2	1478.7	2060.9
Finished goods	428.7	268.2	677.4	1490.7
Total	1453.7	1191.2	2602.3	4477.0
	Volume (quantum-index) (1937 = 100)			
Livestock and foodstuffs	100	8.5	16.8	34.4
Raw material	100	35.3	58.6	81.0
Finished goods	100	23.2	54.9	109.0
Total	100	24.3	45.9	76.3

These current statistics, however, cover only part of the total imports. They do not contain all deliveries from direct ERP aid (excluding coal and some other "off-shore" purchases, i.e., purchases from direct ERP aid outside the continental USA) as well as most of the other aid-deliveries (excluding deliveries within the framework of drawing rights and pound-sterling credits). The official statistics give the total of the additional ERP imports as 1952 million schillings in 1949. If one adds further relief aid (Liebesgaben) in the amount of 9.3 million dollars and war surplus goods with a value of 0.7 million dollars there is an increase of the total imports to 6366 million schillings in 1949. In the structure of imports coal and foodstuffs formed a relatively important part in 1948 and 1949. The imports of primary foodstuffs (such as bread grains, flour, fats, sugar, meat, livestock and leguminous plants) were 111 per cent of the 1937 figure in 1947 and increased to 113 per cent and 122 per cent in 1948 and 1949, respectively. 439

The high demand of the Austrian industry for coal (especially hard coal, blast furnace coke and coke) could only be covered by sufficient coal imports since the demand is far higher than in the prewar period. The volume of coal imports was 69 per cent and 88 per cent more in 1948 and 1949, respectively, than in 1937. Although the continuing extension of electric energy may allow lower coal imports, the proportion of coal imports to the total imports will remain higher than the prewar level due to structural changes of the Austrian industry. The import of foodstuffs and coal constituted in part a handicap to the import of raw materials. Of the total raw material imported (excluding coal) in 1937, similar imports reached only 25 per cent in 1947, 64 per cent in 1948 and 85 per cent in 1949, in which year total imports exceeded the prewar level.

Austrian industry in this period, therefore, [433] was supplied with foreign raw materials to a lower extent than in 1937. That it was able to exceed prewar production despite this condition is mainly due to the favorable development of industries producing production means (based on domestic iron ore production). Moreover, foreign raw materials, aided by the investment program, could be replaced in part by domestic products (such as rayon staples). The extraordinary high quota of the import of finished goods can be explained by the high demand for invesment goods in the country itself, which could be covered only partly in domestic production.

The structure of imports is regionally very different from that of the prewar era. Whereas in 1937 the state regulation of foreign currencies, fixed quotas and clearing agreements formed an elastic system which was capable of using the cheapest sources of imports, in the first years after the war imports were forced into quite different direction by intensified bilateralism (which has been relaxed since by increasing 439 457

43 liberalization and by the European Payments Union)
43 and by special conditions attached to foreign aid, by differentiated currency rates and by subsidies for imports. In 1937 only 6 per cent of all imported goods came from the USA, but in 1949 this figure was 29 per cent. In the same period imports from eastern and southeastern Europe was reduced from 40 per cent (in 1937) to 18 per cent (in 1949). As the high import quota from the USA could be maintained only as long as American aid was forthcoming because of the dollar shortage, Austria has to face the very difficult task of transferring import areas for necessary foodstuffs and in part for raw materials also, in the next few years. She must turn to regions which not only are able to deliver but also ready to take Austrian goods in exchange.

If we compare the statistics for imports and the direct ERP aid of the year 1949 (amounting to 6366 million schillings) to the exports (amounting to 3229 million schillings), an import surplus of about 3137 million schillings results (according to the former exchange rate it would be 299 million dollars). Including the import of relief gifts (Liebesgaben) and surplus goods the deficit of the commercial balance increases to 309 million dollars, or 52 per cent of total imports. Out of the total deficit mentioned (3137 million schillings) 734.9 million schillings go to imports from Europe (ERP countries), 304.9 million schillings to imports from non-ERP countries, about 181.8 million schillings to imports from overseas areas of the ERP countries and the sterling-bloc. The bulk (1915.2 million schillings) goes to the USA and Latin America.

The transfer of the center of imports to the USA is a clear consequence of the high aid from foreign countries. The significance of these figures is: the reconstruction of the Austrian economy, a reasonable standard-of-living and a high level of employment, aims which Austria must attain after 1952 by itself (that is to say, by higher exports and increased productivity).

This struggle is the more important as Austria still lags behind in terms of the overall development of European trade. Whereas the volume of all European countries, including Germany, already reached 73 per cent and 87 per cent of the prewar level in the years 1948 and 1949, respectively, the level in Austria was 52 per cent and 70 per cent in the same two years.

2. Developments in 1950.

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As a consequence of the Korean crisis in its impact upon the world-wide state of business since June 1950, the development of Austrian foreign trade in 1950 shows an extraordinary increase of exports in the last four months of the year. To be sure there is also a considerable increase in imports, but the extent lags behind the increase of exports. From August to December, the value of imports, including ERP, showed an increase of about 29 per cent. The increase in exports was about 54 per cent for the same period. The debits in the trade balance, therefore, sank from 150 million schillings in August to 71 million schillings in December.

The total value of imports in the previous year was 9.2 billion schillings. This includes (1) the commercial imports, including imports of goods under drawing rights up to June 1950 and under the initial position for Austria since July 1. These payments are carried out multilaterally through the Bank of International Balance of Payments in the European Payments Union; the amount comes to 7.1 billion schillings. (2) Imports within the scope of direct aid under ERP in the amount of 2.1 billion schillings.

Compared to 1949 the import of goods from foreign countries has increased by almost 50 per cent in total value (the value in 1949 was 6.4 billion schillings). This increase, however, was actually due to the rise in prices (as is shown clearly by the quantum-index). On the other hand, there is a structural change in imports as the imports of foodstuffs sank from 33 per cent (1949) to 26 per cent (1950) of the total imports. The proportion of finished goods (mainly the import of investment goods) rose from 27 per cent to 31 per cent.

At the top of the rank of the countries from which goods were imported in 1950 was the USA with an import value totaling 2.1 billion schillings; 1.9 billion schillings (88 per cent) went toward direct aid. In second place is West Germany with 1.5 billion schillings. Then follow Great Britain (712 million schillings), Italy (664 million schillings), Poland (417 million schillings), Czechoslovakia (399 million schillings), Switzerland (380 million schillings), the Benelux countries (288 million

439 schillings), and the Netherlands (248 million schillings). Noteworthy also are the imports from France, Yugoslavia, Hungary, Turkey, and Sweden.

As to the goods imported, 16 per cent (1.4 billion schillings) consisted of fuel, imported mainly from West Germany, Poland and Czechoslovakia. Next in order are electrical and other machines and apparatus (814 million schillings) from West Germany, the USA, Switzerland, Great Britain, and the Netherlands. The grain imports, amounting to 786 million schillings, come almost exclusively from ERP deliveries of the USA. The import of wool reached a value of 379 million schillings, that of cotton 329 million schillings; wool was imported mainly from Great Britain, cotton in part from the USA. There were also significant imports of sugar in the value of 368 million schillings out of which 109 million schillings were within the scope of ERP. Iron goods were imported in the value of 265 million schillings. Among the foodstuffs, edible fats and oils with a total value of 218 million schillings were imported (the larger part of this amount, i.e., 64 per cent, coming from ERP funds).

The exports reached a total value of 6.5 billion schillings. Germany was the top-ranking buyer with 994 million schillings, Italy second with 872 million schillings. Then followed Czechoslovakia (397 million schillings), the United States (363 million schillings) and Switzerland (347 million schillings). The delivery of goods to Trieste in the value of 341 million schillings were mainly for transit to the Levant. Other exports went to the Netherlands (289 million schillings), Yugoslavia (260 million schillings), Great Britain (244 million schillings) and Hungary (237 million schillings). Among the overseas countries (excluding the USA) there is Argentina with 134 million schillings. In addition to the Austrian heavy industry succeeded in exporting to Egypt, India and Pakistan to an increasing extent.

The most important export goods in 1950 were iron goods (987 million schillings), timber (981 million schillings), paper (392 million schillings), raw iron (343 million schillings), wood pulp (280 million schillings), nitrate of lime and ammonia (there were no exports of nitrate of lime and ammonia before the war; the exports come exclusively from the Österreichische Stickstoffewerke in Linz with a monthly production of approximately 30,000 tons)

(271 million schillings), cotton goods (204 million 439
schillings), fireproof bricks (200 million schillings) and glassware (201 million schillings).

The total index of import prices in 1950 was 627, that of export prices 531 on the basis of 1937 = 100. The corresponding figures for 1949 were 407 and 387. The increase of prices for import goods, therefore, were on an average far higher than was the case with exports (54 per cent as against 37 per cent).

A comparison of the commercial imports with exports for 1950 shows an unfavorable balance of 576 million schillings (as against a balance of 1.2 billion schillings in 1949). Including gratis deliveries within the scope of the ERP, the deficit, however, increases to 2.7 billion schillings (in the previous year the deficit of the total exchange of goods was 3.7 billion schillings). The deficit in the exchange of goods with foreign countries was covered in the first half of 1950 by drawing rights and in the second half of 1950 by using up the Austrian credits at the Bank for International Payments after the agreements with the European Payments Union had gone through.

Further betterment of the Austrian economy 652
is intended through the following. The Export Ad- [433]
vancement Law (Ausfuhrförderungsgesetz) provides
granting medium and long-term credits up to a limit 457
of 500 million schillings under state guarantee. [Up to March 23, 1951, the Nationalbank received applications for credits totaling 174.5 million schillings; 79 million schillings of which represented refinancing. As the state guarantee comprises only 80 per cent of the export credit, 77.6 million schillings (80 per cent of the 97 million schillings) were tied up on the key-date in accordance with the Exportförderungsgesetz, i.e., 15 1/2 per cent of the maximum of 500 million schillings.] The Austrian Export Funds A. G. (Oesterreichische Exportfonds A.G.) will support exports of craft goods to hard currency countries through credits. They will start with 25 million schillings. [The first interim balance of the corporation shows credits amounting to 16.4 million schillings, i.e., about two-thirds of the export funds (25 million schillings) at the end of March, 1951.] On October 5, 1950, an agreement was reached for simplification of exchange rates together with measures for

457 raising the productivity of the whole economy.
652 Toward the end of the year a change in the problems concerning the whole economy could be observed owing to increasing tension in the balance of foreign currency and payments.

B. The Austrian Contribution to Freer Intra-European Trade.

'439 Although exports increased in the last few years, they could not, as the preceding figures have
652 shown, cover the total imports in 1950. The dif-
457 ference was covered again through foreign aid (ERP grants) and through credits, as was the case in earlier years. Thanks to foreign aid, which financed the biggest part of the imports of foodstuff, raw material and coal, the Austrian economy had a total import which, by 1949, exceeded the prewar level in volume and covered the demand of imports most urgent for reconstruction purposes.

In spite of this fact, the balancing of foreign currencies, with regard to the United States as well as to most other countries, could not be attained by means of market transactions. In contrast to the progressive relaxation of state controls in the domestic economy, the demand for imports had to be limited by import licenses and allotments of foreign currencies to the amount available for the import of goods. Regulations and procedures of this control of the foreign trade were determined by the law of Foreign Trade Traffic (Aussenhandelsverkehrsgesetz). (This law was amended in April 1951 owing to special developments caused by the necessary laws of economic policy.) The partial lifting of intra-European trade barriers [hereafter referred to as "liberalization" by the author] started in the fall of 1949, brought problems of trade policy and of foreign currencies.

In September 1949, the council of OEEC (Organization European Economic Cooperation), in Paris decided to liberalize 50 per cent of the foreign trade between the European ERP countries in order to create a simplified economic area. Austria agreed with the principle. But it had to be very careful in abolishing import restrictions in view of developments in its balance of foreign currencies, otherwise the balance aims would have been endangered. Thus, for

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liberalized goods, a number of administrative simplifications in the import precedures were created (exclusion of the obligations for a license by the "Aussenhandelskommission"). The import of these goods is dependent upon the momentary availability of foreign currency. Austria's special situation was also recognized by the OEEC, Paris, which agreed that the measures taken corresponded to the actual situation. In spite of this, Austria made a reasonable contribution toward the integration of the whole European trade policy as proof of its goodwill. For example, in the foodstuff sector, goods with an import value of 10.5 million dollars, i.e., 32 per cent of the commercial imports from ERP countries, were liberalized in October 1950. In liberalization the emphasis lies with the raw material sector, in which 45.5 million dollars (or 84 per cent of the imports from ERP countries) were liberalized. With regard to the accentuated investment policy, moreover, a number of items of the finished goods category were freed from import restrictions. In volume the liberalization represents goods amounting to almost 86 million dollars, i.e., a liberalization of 60 per cent of the imports from ERP countries.

From the standpoint of the economic policy, liberalization measures are characterized as follows: in the foodstuffs category, 70 per cent of those foodstuffs used for human consumption were liberalized, whereas agricultural products or those which are produced in sufficient quantities in the country itself were excluded from liberalization.

Furthermore, to increase the productivity of agriculture, almost 100 per cent of fertilizers and chemical products for agricultural use were liberalized. The very important fuels were freed from import licenses up to 80 per cent and iron alloys almost up to 100 per cent. In the same way, almost 100 per cent liberalization was made for non-iron metals and concentrates and raw alloys therefrom, as well as the important demand for raw materials by the textile industry, which cannot be supplied from the country itself (80 per cent).

A high quota of liberalization is shown in the category of finished goods, especially of chemical finished products (with about 70 per cent) and of synthetic fibers (with about 90 per cent). With regard to the extensive demand for investments, machine tools for metal production were liberalized up to 90 per cent and the demand of various industries by more than 75 per cent.

439 457 652 In order to make the liberalization fully effective it is necessary to abolish foreign currency restrictions for goods which have been liberalized and that is where the difficulties arise. Although the Initial Position in the value of 80 million dollars granted within the scope of the European Payments Union supports this effort through a relaxation in the foreign currency situation, it did not effect a general solution of these problems. The so-called dollar problem still exists in a very real sense.

648 The European Payments Union, of which Austria is a full member, was put into force on July 1, 1950. It is the logical continuation to the reorganization of the European Payments system, started by the OEEC with the "off-shore" and drawing rights system. Above all, it was to further the lifting of trade barriers between the ERP countries and to carry out the principle of non-discrimination, the equal treatment of all parties within ERP Europe.

These measures, however, did not solve the precarious dollar problem for the ERP countries and Austria since it was not the aim of the European Payments Union to promote European exports to the USA and other hard currency countries outside the ERP. Also the currencies of the EPU countries are interconvertible but not against the dollar. For Europe, therefore, the dollar remained a very rare and hard-to-obtain currency.

A certain relaxation was caused by the new developments in the second half of 1950. The relaxation of the dollar shortage was not caused by the combination of the individual elements: the European Payments Union, liberalization and integration. Rather, due to external causes, it was a consequence of world economic changes which, owing to the conflict in the Far East, opened new markets of peacetime demands to those countries not directly involved in defense measures. (The dollar shortage is essentially a special structural problem of world economy, the causes of which go far back into the war years and are above all connected with the loss of southeastern Asia and the establishment of synthetic production processes in the United States.)

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A change in the general aims of economic policy had also taken place because of the European Payments Union. While in the first phase of economic planning by the ERP the investment plans were stressed, now the primary target within the scope of the European Payments Union was the currency system. The ERP was not only a preliminary stage to the free exchange rates between the currencies of ERP countries and the dollar, but it was also to help prepare the possibility for the functioning of international currency funds on the broadest scale. As far as Austria could fulfill these tasks it made a contribution to the whole European currency order by the simplification of its exchange rate system and the fixation of the existing exchange rate of 21.36 schillings to one U. S. dollar for all traffic in goods. (This regulation of October 5, 1950, has been mentioned previously.)

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In the meantime, alterations in the structure of world trade in the early part of 1950 (shortages on the raw material market, increases in prices)caused a change in the commercial policy toward the whole problem. Thus, the discussion of a number of special tasks and principles became necessary (this was also true for Austria). Up to this time the center of gravity in trade policy always lay with the exports, but this shifted to imports considerably toward the end of the year. Comparing quantities became more or less unimportant; the question of "what" in exchange of goods became more important than the question of "how much." The problem now is: what type of goods should be exported and which imports are desirable to make these exports possible? Can the domestic economy, under the given conditions, do without those export goods and does it receive instead of them such goods as it really needs? Or, will the domestic economy lose, by export, such materials that it really requires to maintain its own capacity? Perhaps goods will be imported which, although pleasant and useful, are not really necessary. Such are the questions which were the center of all deliverations concerning trade policy toward the end of 1950.

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In the course of this development one can observe elements of retrogression to the compensation system in trade among the nations (or, to be more correct, among the ERP countries) around the end of the year 1950. Although business is carried out in principle in accordance with the clearance system,

439 many a business transaction is again of the barter
457 type. At present these do not lie in the sphere of
652 private business transactions but are at the level of state control. If one bears in mind the whole European trend under the system of liberalization and of the EPU, this is a typical retrogression which tends toward bilateralism instead of multilateralism. No doubt the system of compensation will prevail again since the factual renunciation of multilateralism in favor of the clearing transactions has to face, at the present time, quite different conditions than existed at the time when those changes, disputed as they were, offered the only possible solution.

Certain signs of a crisis in the policy of liberalization constitute a further problem which influences the trade policy of single states in recent developments. Confined at first to only a few states, this crisis engulfed a still larger number of European trade partners toward the end of the year, since a liberalization without guaranteed payment (foreign currencies) does not at all fulfill the aim of increasing trade relations. The payments traffic on the clearing accounts which, in last analysis, reflects the traffic of goods between the participating states shows a debit tendency.

Under these conditions, Austria faces a number of special tasks in trade policy, the solution of which, however, is not Austria's responsibility alone. Above all, the task is to reach agreements in which the Austrian economic potential can be fully utilized and which afford the possibility of adapting to developments rather contrary to the agreement terms. Austria offers its partners goods (such as timber, magnesite, steel and iron) which are needed all over the world. At the same time, there must be readiness to accept finished goods for deliveries of these vital goods. Problems of prices and of competition (aside from the increase of productivity in the total economy) must be solved in a way which diminish the disadvantages of the non-elastic clearing traffic without producing, on the other hand, unbearable consequences in the policy toward foreign currencies. It must be the most important task of the Austrian trade policy to secure the import of such goods as Austria needs to maintain full employment and, thereby, social stabilit

C. Tourist Traffic

Along with the increased economic consolidation, there has been a rising development of the tourist traffic, which is of great importance to the Austrian payments and foreign currency balance. The number of overnight guests increased from 10.9 million in 1949 to 14.09 million (an increase of 29 per cent) in 1950. The upward trend started immediately after the exchange rates were altered in November 1949, and concerns primarily foreign visitors. There were 4.58 million foreign overnight guests in 1950 alone, an increase of 155 per cent as compared with the preceding year. This, however, is only 70 per cent of the 1937 level. Among the countries from which most foreign guests came were Italy, Great Britain and Switzerland, in that order. 457

Foreign currencies derived from these services amounted to 15.05 million dollars (391.3 million schillings) in 1950. In the scope of the payment balance this corresponds approximately to the expenses for freight and transportation or, in other words, to 10 per cent of the whole deficit from foreign trade. In 1937, the influx of foreign currencies from this source amounted to 41.2 million dollars or 220 million schillings (i.e., at the present dollar exchange rate, 80 million dollars). The present income in foreign currencies, therefore, corresponds in purchasing power to only 20 per cent of the prewar income from the same source. To support the tourist traffic (modernization and extension of hotels, resorts, etc.) 280 million schillings from counterpart funds are being provided in the investment program 1950-52. Of this amount 28.6 per cent (109.3 million schillings) have been allocated during 1950.

D. Balance of Payments and the "Gross National Product."

According to calculations of the Oesterreichisches Institut für Wirtschaftsforschung, the Austrian "gross national product" amounted to 30.0 and 36.8 billion schillings in 1948 and 1949, respectively. Figures are not available for 1950. Compared to the price level of 1937, the gross national product for 1948 is 7.7 billion schillings and for 1949, 8.6 billion schillings, as compared with [illegible].5 billion 434

434 schillings in 1937. Although this increase from 1948 to 1949 was caused mainly by changes in prices, the fact remains that the gross national product increased in 1948 by 15 per cent and in 1949 by another 12 per cent. Thus, the prewar level was [433] approximated. The increase of capacity and at the same time the increase of the gross national product in the years 1948-50 is due to the rise in productivity of the whole economy. However, further increase will be even more difficult because the utilization of capacities and of available labor reserves will advance. Although industrial production had reached a level in 1947 equal to 56 per cent of the 1937 level (in 1949 119 per cent and in 1950 140 per cent of the prewar volume), the productivity increased in the same period from 47 per cent to 79 per cent (in 1949) and 90 per cent (in 1950). Therefore, it still lags behind the prewar period. The same holds true for agriculture; the total production (agricultural and livestock production on the basis of 1937) reached only 55 per cent of the 1937 level in the year 1947, 80 per cent in 1949 and approximately 84 per cent in 1950, but the productivity reached only 90 per cent.

[439] Remarkable progress was attained as compared to the years 1945-46. By its own efforts and with the help of foreign aid Austria could satisfy the urgent demand for imports and the volume of imports was increased above the prewar level. The exports, however, lagged behind as measured by the quantum-index. The same holds true for the balance of services. On the basis of economic data the balance of payments of Austria in 1950 is presented in the following table.

Explanatory notes to table:

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a. Quoted in dollars due to change in exchange rate.
b. Calculated in dollars for 1949 and 1950 by the Oesterreichische Statistisches Zentralamt.
c. Other services.
d. Up to June 1950 including drawing rights.
e. Among them aid deliveries in form of credits; no decision has been made about the obligation for repayment.
f. Net payment of drawing rights up to the end of June 1950, and Initial Position payments since July 1950.
g. Provisional figure.

5: Heissenberger S-4, 5 (no date) 1953 EK1 Austria EK1

The Austrian Balance of Payments
1948-1950

(In millions of U.S. Dollars)[a]

	1948	1949	1950
EXPENDITURES			
I. Imports			
Commercial goods imports (incl. ERP and indirect aid) [b]	211.45	397.29	360.33[g]
ERP deliveries (direct aid)[b]	94.30	194.20	118.88[g]
Private organization charity and relief	19.60	9.34	4.10
Other relief deliveries	162.55	0.99	0.11
Electric current	1.90	1.90	0.60
TOTAL	489.80	603.72	484.02
II. Services and Interest			
Freight and Transportation	c	9.29	15.72
Tourist Traffic	2.10	2.61	3.63
Post and Communications	0.25	0.35	0.45
Diplomatic Service	1.40	1.70	1.58
Insurance	c	0.37	0.25
Other services	2.05	6.16	6.37
Interests	0.20	0.58	0.53
TOTAL	6.00	21.06	28.53
III. Refunds for foreign credits	8.00	7.50	6.93
IV. Net changes of short-term foreign loans and obligations	19.40	11.05	30.27[g]
Unexplained difference	6.63	--	39.74[g]
TOTAL EXPENDITURES	529.83	643.33	589.49[g]
INCOME			
I. Exports			
Export of goods[b, d]	198.30	285.86	326.10
Electric current	8.60	5.67	6.18
TOTAL	206.90	291.53	332.28
II. Services and Interest			
Freight and Transportation	c	10.01	6.94
Tourist Traffic	0.80	3.48	15.05
Post and Communications	0.65	1.05	0.80
Diplomatic Service	c	0.37	1.36
Insurance	c	0.05	0.08
Other services	20.23	22.82	21.91
Interest	--	--	--
TOTAL	21.68	37.76	46.14
III. Claims to foreign credits[e]	21.50	12.70	4.88
IV. Financing of deficits by aid deliveries			
ERP (direct aid)	94.30	194.20	118.88[g]
ERP (indirect aid)[f]	3.30	95.57	83.10
Private organization relief and charity	19.60	9.34	4.10
Other aid deliveries	162.55	0.99	0.11
TOTAL	279.75	300.10	206.19
Unexplained difference	--	1.22	--
TOTAL INCOME	529.83	643.33	589.49[g]

IV. AUSTRIA'S ECONOMIC POSITION IN 1951

452 The following points are characteristic of the economic trends in 1951.

1. In the monetary field: the tendency in the world economy toward forcing reductions in the credit policy; the figures will be rounded-up by an increase of the bank rates toward the end of the year;

652 435 2. In the budgetary field: the approaching end of ERP aid makes it necessary to reduce the price supports still existing;

454 3. In the field of investment policy: a reasonable balance between the investments of the production goods sector and the consumer goods sector is to be prepared; by increasing the offer of goods ready for consumption and export the imbalance in the balance of payments will be overcome as rapidly as possible;

439 4. In the field of foreign trade: the shortage of raw materials and the existing discrepancy between the trade and foreign currency balance (deterioration of the exchange rates) make special laws and measures necessary to promote exports;

435 465 5. In the field of prices and wages policy: certain discrepancies in prices, especially in the agricultural sector, make necessary adequate adjustments as well as improvements of real income of wage earners to the level of higher prices;

6. In the field of production and productivity: a general increase of the capacities and the extent of capacities, is necessary between the social partners and the abolition of burdens which prevent an increase in production. Adequate relations should be created.

A. International Economics and Austria's Reaction

000 A glance at the representative statistics prove that international development proceeded along quite different lines in 1951 than was expected at the beginning of the year. The steep rise of prices for raw materials, especially those of wool, tin, rubber, which started from the beginning of the Korean crisis have created an ever-increasing inflationary tendency.

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All this caused price reductions in March 1951. Within a half-year, prices of the most important raw material sank by almost a half. When price reduction on the world market stopped again in September, the possibility of prices rising again could not be excluded. On the whole, however, the prices of raw materials were kept at the depressed level (not taking into account violent attacks on single markets which could be corrected in a very short time).

It was clear that the rapid rise in prices for overseas raw materials which had taken place in the first third of the year caused an increase in the costs of production in all countries which depend upon imports. This fact created a kind of chain-reaction of new developments which was reflected in business activity (highly intensified and typical of any price inflation), as well as in a mobilization of savings or hoarded money. This money flowed into the market as additional purchasing power and nourished new rising tendencies in prices. It is an old experience that processes of retrogression are by far slower if once there occurs an inflationary rise. It is understandable, from a human and social standpoint, that the menacing decline in real income of the broad masses of wage and salary earners was stopped by the increase of their money income. This was possible only as long as the interrelation between the increasing volume of purchasing power and the capacity which corresponded to this inflowing purchasing power was not disturbed. No economic system--whether free or bound--can disregard the fundamental economic connections between capacity (productivity) and the price of the produced volume of goods and the real value of the current means of payment (money). It is of no use to discuss whether the primary impulse for an inflationary development comes from the monetary side by the increase of money (extension of credits) or whether the real cause of any inflation is not the surplus of demand which takes place when consumer demands and the demands of the state exceed the capacity of the economy.

Of course, things were not and are not, neither in a world-wide nor local area, so simple that they merely maintained the connection between the volume of goods and payments. The effective and formative powers in a national economy today are of a far more complex nature. Not taking into consideration the continuous political tensions, and the psychological reactions which are a consequence of those tensions, there were extensive structural changes in the economy

000 in the course of the last decade, by which a number of areas formerly at the disposal of the western hemisphere were totally or in part lost (such as Malaya, Indonesia, China, Iran, etc.). By these changes the balance of payments was adversely affected also. Thus, even the dollar problem which has become so urgent today is nothing more than the result of a development that had started during World War II by the loss of the eastern Asiatic area for raw materials and the forced transfer of natural production of a number of items to synthetic production, especially in the United States.

The reactions which came from the markets for raw materials in the first half of the year produced, as a consequence, an inflation of the total European price and wage level. In the second half of the year these tendencies weakened and lost much of their original impetus, with the sinking of the price level. It is a fact that the business activities of the western hemisphere toward the end of the year were no longer overshadowed by the concern over an immediate shortage of goods, which had characterized the development of the international economy after the outbreak of the Korean conflict.

Since the middle of 1951 a certain decrease in the demands was observable on the consumer goods market in the leading countries; this was considered a salutary relaxation after hoard buying. Towards the end of the year, however, buyers exercised more restraint as they no longer expected any considerable increases in prices. On the other hand, certain impulses again took on a more serious character stemming from increasing public expenditures and structural changes of certain balances of payment.

The international development as sketched in rough outline here could not help but have an impact upon Austria.

457 The forces working in the world market and influencing the structure of the Austrian economy [1] (especially the price discrepancy between import and export prices) led in the beginning of the year to a difference between the trade and foreign currency balance, thus to an increasing tension in the balance of payments. (This was the case regardless of apparent shortages in important raw materials and in spite of a relatively favorable trade balance, considerable income from foreign currencies, and the direct and indirect

[1] [Cf. category 116, pp. 92-94--Analyst]

aid which was granted.) The result was not only a very early claim upon direct aid (in the third ERP year, i.e., from July 1, 1950, to June 30, 1951--8.81 million dollars) but also an exhaustion to a very considerable degree of the Initial Position supplied by the EPU in the amount of 80 million dollars. To ease the precarious situation, the OEEC was asked to increase the direct aid and to extend the Initial Position. This was granted by ECA after complicated discussions with regard to the special situation in Austria; at last, amounts of 18.2 and 10 million dollars, respectively, were granted for the period up to June 1951. 457

B. Credits, Wages, Prices and Subsides (Measures and Agreements).

The higher prices of foreign raw materials, 652 [439] their shortage, and the reactions which followed the fourth price and wage agreement reached between the Chambers of Economy (Wirtschaftskammern) in September 1950 led eventually to an actual transfer of the single cost elements, thus endangering the potential exports of Austria designed for the international market. In 1950 the center of gravity in the foreign trade policy lay with the foreign currency policy and was the main concern of the Nationalbank. The existing international shortage of raw materials shifted this center to the planning of quantities of imports and exports. The Austrian Federal Government, therefore, had to coordinate Austrian economy with world economic conditions. A number of economic-political proposals were introduced in the National Assembly which, limited in time to June 30, 1952, were enacted in the last session of the Fall Convocation 1950-51 (ending in February 1951). These were the laws enacted:

1. The law concerning the creation of an economic [illegible] directorate (Wirtschaftsdirektorium) consisting of members of the Federal Government; it has as its task coordination in the fields of production, prices, food supplies and foreign trade policy.

2. An amendment to the price control law (Preisregelungsgesetz) to exercise a rein upon prices; [435]

3. An amendment to the raw materials allocation law [433] (Rohstofflenkungsgesetz) which is supposed to channel raw materials of which there is a shortage toward those goals which are most urgent economically;

652 4. An amendment to the foodstuffs control law (Lebensmittelbewirtschaftungsgesetz) which aims at assuring a basic amount of food for the people;

5. The foreign trade law (Aussenhandelsverkehresgesetz) aiming at providing a legal groundwork for the coordination of the procedures and decisions of the Economic Directorate with the activities of those officers who were entrusted with handling problems of foreign trade.

Moreover, it became necessary (as was already the case in other countries) to take certain measures in money and credit policy against the progression of inflationary forces.

652 One of the first results of internal measures was an agreement reached between the Austrian Nationalbank and the Association of Austrian Banks and Bankers on March 16, 1951, concerning the procedures for a qualitative selection of credits. Its aim was to prevent the extension of credits which could not be reasonably justified. A new definition of the economically non-justifiable credits stipulated a sharper selection of the individual applications. In extension of this agreement, another agreement was reached between the Ministry of Finance and the abovementioned group of credit institutions, sanctioned also by the Austrian Nationalbank, as of April 6, 1951. A quantitative control of credits was provided exceeding the items of the former agreement. The credit institutions which made this agreement accordingly obligated themselves to maintain, for the beginning, a liquid reserve of 25 per cent in foreign means. An increase of this reserve to 30 per cent toward the end of 1951 was anticipated, with the condition that then 10 per cent liquid means of first grade and 20 per cent of such means of the second grade must be kept on hand. (Liquid means of the first grade are: cash, deposits at the Austrian Nationalbank and at the Oesterreichisches Postsparkassenamt. Liquid means of the second grade are: negotiable federal savings bonds at the Austrian Nationalbank, checks, payable coupons, deposits which may be used as collateral at the Austrian Nationalbank, deposits payable daily at the Austrian credit institutions.)

435 652 After rising prices had relaxed somewhat in May, prices in general rose again after June (partly seasonal). The indices of wholesale and retail prices as well as of the living cost were rising again thereby

652 [435] bringing new problems of adjustment. These were solved by a new general agreement of the Chambers of Economy (in July 1951), in which the main considerations were: the out-of-line prices in agriculture, the necessity of decreasing the subsidies for imports still existing, and the boosting of tariffs. Special aims of the economic policy were:

[434] 1. To restrict the utilization of foreign aid for consumption goods in order to afford a bigger part of the total volume of goods and services for investment activities or, at least, a non-fluctuating part in the case of a decrease in foreign aid. The top aim was a change in the utilization of the gross national product.

[435] 2. To balance the agricultural prices which were out of line. In this way, conditions were to be created for an optimal distribution of the available aids through the price mechanism (changes in the constitution of the gross national product).

[454] 3. To effect conditions for a new distribution of income; this referred, in the first place, to agriculture and employment in public services, to persons living on state relief and pensionists (for these last two groups an adjustment of the real income was secured by the so-called "Nachziehverfahren"); the real wages of the other wage earners should be kept on the existing level (changes in the personal distribution of the gross national product).

It was not easy to encompass these aims within the concept of economic policy, since automatically secondary and tertiary reactions to these changes were to be expected upon the total price structure. Be that as it may, the immediate results of this agreement were the following regulations:

[435] 1. Agriculture received higher production prices for wheat, rye and milk, by which a better market capacity might be obtained (stimulation of the production).

[654] [439] 2. The subsidies for the import of bread grains, fodder grains, and raw materials for fats were diminished. Consumer prices corresponded generally to the average (newly calculated) prices of the producer (unless fixed by special regulations). As far as import subsidies continued, they became part of the budget while the incomes from sales were kept on the same level of value as those from the ECA counterpart accounts.

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[651] 3. The tariffs of the public corporations (Federal Railway, Posts, Tramways) as well as the prices for current were increased[1] from 20 per cent to 100 per cent to keep pace with the prices on the world market which had increased due to increases in cost (especially the price of coal); the trend toward a deficit in the Federal Railway and public service enterprises had to be checked. In spite of these considerable increases, these price rises were only three to five times as high as the level of 1937.

[463] 4. On the basis of the newly calculated producer and import tax prices, new retailer prices were worked out; to balance this rise every receiver of gross wages received an additional income of from 10 per cent to 12 per cent per month, but at least a minimum of 140 schillings. For persons in the public service, special measures were taken on the ground of the so-called "Gehaltsüberleitungsgesetz."

[65] 5. Finally, in immediate connection with this agreement a number of taxes and duties were altered: progression of the taxes on wages and incomes; a change in the rates of the mineral tax; a change in the contributions of the employers to the balance funds for charitable relief; a change in the turnover-tax; on the grounds of the law of adjustment of social insurance of 1951, the basis of the maximum contributions to social security were changes.[2]

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[654] The most remarkable progress within the scope of this agreement, however, was (as already mentioned) the reduction of subsidies. As is known, the indfvidual ERP countries obligated themselves in the bilateral economic agreements (Austrian agreement, August 2, 1948) toward the USA to pay the full value of the American relief deliveries in the currency of the recipient country on a special account (counterpart accounts). These accounts should be disposed of by the individual governments in accordance with the approval of the ECA to cover, as a rule, the financing of productive investments and to support currencies. The utilization of these means for financing for consumer goods should be limited as far as possible, although this had been tolerated in the beginning to raise the general standard of living. The purpose of this limitation was not to prolong the dependence upon foreign aid which was to end toward the end of June 1952.

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652 With regard to the necessary balancing of the balance of payments (the special measures to achieve

[1] [i.e., in July, 1951. Cf. cat. 116, p. 97, for rationale--Analyst]

[2] [sic.,--Analyst]

these aims will be discussed later), which becomes
more and more urgent because of the decrease in ERP 457
funds, means from counterpart funds for investment 652
aims had to be released to an increasing degree.

The Austrian government declared, therefore, 652
its readiness as early as the fourth price and wage
agreement to abolish all ERP subsidies for imports. 435
In the interest of keeping living costs at the lower 439
level, also, certain quantities of vital goods were 654
provided at lower prices in 1951. Besides fertilizers
and raw materials for fats (which continued to be calculated on the basis of former prices), the prices of wheat and fodder corn were increased but they still remained far below the prices on the world market. In addition, smaller subsidies were provided to support the prices of sugar, glass, drugs, and hides.

In spite of the partial abolition of subsidies, they still amounted to approximately 1 billion schillings for the period from October 1950 to June 1951. Seven hundred and fifty million schillings went to the debit of the counterpart accounts and 250 million schillings to the debit of the budget. Further subsidies had to be faced for two reasons: a sinking of the allocated means in the last year of the Marshall Plan (1951-52) had to be taken into consideration; and further means were necessary to continue investments which already had been started.

The agreements, therefore, provided adequate increases in sale prices for the import of individual goods. In spite of these price correction measures by which the difference between the import prices for wheat, rye, fodders and raw materials for fats and the prices on the world markets could be diminished, but not fully absorbed, there still remained a considerable burden on the budget because of the existing prices on the world market and the projected quantities of imports, as well as by changes in the ways of financing (transfer of counterpart accounts to the public budget). Thus, the differences had to be covered by the next balance period, a fact which the government budget 1951-52 had to take into account. This problem will rise again with the end of the Marshall Plan aid in June 1952.

If one considers the results of these agree- 652
ments as a whole, a clear success had been scored in 434
the prevention of further increases of subsidies, in
the improvement of real income of public servants,

434 pensionists and persons dependent on state relief.
452 The correction of some out-of-line prices was also effected. To achieve these results the gross income of wage earners increased by approximately 6.1 billion schillings, the tariffs by 1.5 billion schillings and the incomes of agricultural workers by 640 million schillings. A flow of money has been effected surmounting by many times the net effect of the transfers in incomes. Future regulations will provide the final easing of tensions caused by the structure of prices and wages. By the same token, the final solution of certain apparent budgetary problems (remaining subsidies) and problems of the economic policy must be postponed, especially in view of social considerations.

435 The increases of prices, wages, taxes and tariffs by the fifth price and wage agreement caused, in many respects, a considerable movement of prices even in fields other than those comprised in the agreement. The intensity of this movement, however, was diminished by the continuing high industrial production (the number of employed reached more than 2. million people in the middle of the year) and by the sinking of prices in the world markets. However, there were a number of secondary, even tertiary, reactions which could not be avoided, although these reactions raised the general level of prices as a result of increasing demands in the second half of the year.

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439 The prices of raw materials, however, were stable in the early summer. The wholesale trade index of the Statistisches Zentralamt sank by 0.6 per cent (from 795 to 790; based on the formula 1938 = 100) from the middle of July to the middle of August. This was caused mainly by price reductions of the most important foreign raw materials (wool, rubber, tin), while domestic raw materials and semi-manufacturers (leather, petroleum, gasoline, building materials, aluminum and cellulose, among others) brought higher prices. This backward development led to a rise of domestic prices of raw materials and semi-manufactures so that they approximated the highly increased prices in the world market after the outbreak of the Korean conflict. Special problems in the development of foreign trade became acute because the prices of domestic finished goods had to adjusted to the levels of world market prices.

C. Developments in Credit Volume.

The features which influence the volume of payments and credits in an economy come partly from without and partly from within. The impulses, as is clearly seen in 1951, came from the flow of a world-wide inflationary price (wages) development; on the other hand, they were reflected in the necessities of the domestic economy which were expressed by the lines of the investment policy. Every investment ties up the invested capital (credit) until such time as the investment becomes productive. 000

If one wishes to avoid the danger of stopping investments before they reach the stage at which they are productive (i.e., to leave them unfinished and lose them within the scope of the total economy) then it is necessary to provide the proper means for completing investment projects, even if one could prove that a deceleration of credit expansion would be the correct measure. Moreover, the extension of credits requires, in this connection, the disposal of means for operation and credits for raw materials. All these are elements which make the development of credits (as seen from the standpoint of establishing programs of investments) of a necessary character to a certain extent.

The consumption of credits caused by the war, and the lack of an efficient capital market, shifted the center of gravity in financing (excluding investments out of public funds) necessarily to credit channels (see Monatsberichte for January 1952: 'Die Wiener Börse im Jahre 1951"). Among the main sources of financing there are (excluding the liquid reserves of the credit institutions themselves) the increasing savings as well as those legal measures which support the techniques of financing (guarantees by the government in financing investment--Aufbaukredit and Absicherung von Exportkrisen, or protections against export crises) and, above all, the counterpart funds for potential refinancings at the Nationalbank. It is quite clear that these refinancings at the bank of money issuance (in Austria, the Nationalbank) can be only limited interim financing which must be consolidated in due time by consumption in the capital market. 652 452 [454]

If one considers the changes in the volume of total credits in the last year, one observes (on the basis of the report of the Board of Directors of

452 the Austrian Nationalbank) an increase of the total
652 amount of credit extended from 10,677.2 million schillings (December 31, 1950) to 15,226.5 million schillings (in the end of December 1951).

The total volume of credit comprised in the single categories of credit is:

	Dec. 31, 1950	Dec. 31, 1951
	(in millions of schillings)	
Credits for raw materials[a]	702.0	804.6
Other commercial credits	7,707.6	10,347.6
Reconstruction credits[b]	2,267.6	4,074.4
TOTAL	10,677.2	15,226.6

[453] a) These are credits which are to finance the import of semi-manufactures (in the first place, raw materials). Promises of refinancing are given by the [457] Nationalbank and by credit institutions which have to guarantee them along with the Nationalbank. They come from direct and indirect ERP aid for carrying out of deliveries.

b) These are check-credits serving the financing of ERP investments out of ECA releases. They are guaranteed by the government according to the law of March 30, 1949 (BGBl.101/49) and by the promise of refinancing by the Nationalbank.

Listed below are the total credits according to their use as of September 30, 1951 (a later listing is not yet available).

	In Millions of Schillings		
Total credit volume	14,415	=	100.0 per cent
Commercial credits	10,908	=	75.7 per cent
ERP credits	3,507	=	24.3 per cent
From these: Industry and Mining	3,500	=	99.8 per cent
Small business	7	=	0.2 per cent

The commercial credits are listed as follows:

Industry and mining	4,342	30.1 per cent
Trade	2,894	19.3 per cent
Small business	934	6.5 per cent
Agriculture	759	5.3 per cent
Länder and municipalities	623	4.3 per cent
Other credit purposes	978	7.6 per cent
Reconstruction of dwellings	378	2.6 per cent

The development of Savings and Checking Accounts is shown in the following table:

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	December 1950 (in millions of schillings)		November 1951 (in millions of schillings)	
Grand Total:				
Savings Accounts	2,198.1		2,320.0	
Checking Accounts	7,271.1	9,469.2	8,817.6	11,137.6
Break-down:				
Joint-Stock Banks				
Savings Accounts	484.5		537.2	
Checking Accounts	4,056.3	4,540.8	4,993.1	5,530.3
Bankers				
Savings Accounts	17.5		23.3	
Checking Accounts	250.9	268.4	207.0	230.3
Savings Offices				
Savings Accounts	965.3		954.7	
Checking Accounts	1,091.7	2,057.0	1,365.9	2,320.6
Credit Associations				
Savings Accounts	488.8		542.6	
Checking Accounts	386.4	875.2	466.6	1,009.2
Other Credit Institutions				
Savings Accounts	242.0		262.2	
Checking Accounts	1,485.8	1,727.8	1,785.0	2,047.2
		9,469.2		11,137.6

[452]

Since the beginning of the Marshall Plan up to November 30, 1951, an amount of 12,280.1 million schillings was deposited in the special fund as a schillings equivalent of ERP aid deliveries (U.S. laws 84, 389, 470 and 472). From this amount, 750 million schillings were released for monetary purposes, 6,875 million schillings for financing the industrial investment program, 54.9 million schillings for other purposes, and 579.4 million schillings for the 5 per cent quota reserved for the U.S.--a total of 8,284.3 million schillings. On the key-date an amount of 3,995.8 million schillings remained for further purposes. (These figures do not include the United States aid transactions in the amount of 478.2 million schillings for the period from July 1, 1947, to December 31, 1947, the latter amount referring to purchases.)

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652 To evaluate these consequences, the changes
in the structure of production are of main interest.
454 According to the Austrian school of national economy,
433 and according to the conception of competent representatives of this science in Sweden and in the Anglo-American area, the main consideration has to be given to changes in the relations between productive and consumptive utilization of capital. As in European countries other than Austria, the production indices of production goods industries increased at a higher scale than those of the consumer goods industries. This economic center of gravity becomes more clear by listing the release of the ERP funds for the total industry. Excluding public investments and means for covering special reconstruction problems, approximately 2 billion schillings out of a total of 2.6 billion schillings flowed into the production goods industry (power plant construction, coal and ore-mining, iron producing industries, etc.) and 607 million schillings into consumer goods industries (textiles, foodstuffs, paper). The distribution of these funds was aimed at affording Austria the opportunity to match the technical and industrial developments in the rest of the world, at least in the field of primary materials and semi-manufactures. The use of a big part of the credit volume, therefore, is fixed by the purposes of the official investment programs which are worked out by the Austrian government in consultation with economic circles and the ECA in Washington. Complementary credit demands (Betriebsmittelkredite) are tied to this credit as a consequence of the extension of capacity and the industries participating directly in these investments.

652 The agreement on qualitative and quanti-
453 tative credit measures reached between the Federal
452 Ministry of Finance and the joint stock banks in the spring of 1951 was followed by an additional agreement of October 10, 1951, paralleling the general international development. This later agreement allowed an increase in the total credit provided or promised by a bank, as of August 31, 1951, under certain conditions. [These are schilling credits in current amount, draft credits regardless whether the drafts remain in the portfolio of the bank or whether they are rediscountable; moreover, mortgages and municipal loans (unless they already serve to cover issued mortgages and municipal obligations), as well as requirements against Austrian credit institutions which do not exceed a thirty-days' validity. Not included in the total are reconstruction credits, credits granted for financing exports and

those for financing the harvest. The allowable increase of the total amount of credits (excluding the above-mentioned restrictions) may not exceed 70 per cent of the increase of obligations, i.e., of those means which recently have flowed in. An additional increase exceeding the above-mentioned total of credits is allowed only under the condition that liquid means of the first and second grade, in accordance with the agreement of April 6, 1951, effective August 31, 1951, exceeded the necessary liquid reserves at that same date; otherwise, the credits must be restricted to the rate of prescribed reserves. Other items of the agreement refer to the regulations concerning utilization and eventual sanctions if they do not keep to the reserve rates.]

For the purposes of coordination, the additional agreement stipulated that representatives of the bank must meet at least once a month at the Federal Ministry of Finance or at branches of the Austrian Nationalbank. They meet in the form of regional committees to discuss problems of credit policy to establish directions of restriction credits by their own volition, to discuss their fulfillment on the basis of the material in current figures, and from time to time to provide changes in or additions to these directives. The banks are represented in these credit committees by a six-member committee to which one representative each is delegated from the three nationalized big banks (Handels-und Gewerbebank, Arbeiterbank and the Bankhaus Schoeller and Co.). A measure of greater importance to currency policy is the decision of the General Council of the Austrian Nationalbank to increase the bank rate from 3 1/2 per cent to 5 per cent as of December 5, 1951. (Corresponding to the change of the bank rate, the rates of interest for deposits were altered. Specifically, it was decided that current account deposits will be handled in the future at the rate of 1 per cent instead of 3/4 per cent used until then. The rate of interest for savings deposits and non-negotiable paper was set at 3 1/2 per cent; if left on deposit for at least six months the rate was 4 per cent, and if left longer than 12 months, 4 1/2 per cent. At the same time the limit for free disposal savings deposits was increased from 3,000 to 5,000 schillings per month.) By so doing, Austria joined a number of countries which already had raised their bank rate since the outbreak of the Korean crisis (Belgium, Denmark, West Germany, Finland, France, Great Britain, Canada, the Netherlands, Sweden, and the United States). For the first time since the end of the war the enforcement of this measure

652 in currency policy puts a special stress on the dis-
453 count rate as an instrument of the policy of money-
452 issuing banks. (The last change of bank rate in Austria had been in 1935.)

Considered from a merely economic point of view, the rise of the bank rate means a transfer of the prospects of profitableness from long-term to short-term investments. In this way those endeavors are to be supported which aim at compensating the effects of the present essentially decelerated extension of credits through a greater offer of consumption and export goods in relation to price policy. Moreover, the increase of the bank rate is a proof of the necessity to go back to measures of economic policy which are in conformance with the conditions on the market. The more the bank rate approaches the so-called "natural rate of interest of capital" the less it is necessary to take other methods for the extension of credit for every quantitative and qualitative credit selection contains elements of subjective opinion. Moreover, the limitation of the volume of credits not only constitutes fixation of a certain figure but, under the prevailing economic conditions, of a fixed relation between investments in the production goods industries to that in the consumption goods industries. This relation, which is so decisive for credit policy and, in turn, for the stability of prices, approaches its equivalent value more when the economic function of the rate of interest provides a selection among the various possibilities for the utilization of capital. The field of credit policy is the one in which it is most difficult to replace the market mechanism by typical control measures.

Of course, there can be no doubt that supporting reconstruction by a policy of "cheap money" made sense in many respects--especially when one considers the conditions which prevailed in Austria in early postwar years. With reference to continuing consolidation, one has to try to reach an economic selection even here and to adjust credit to the development that has taken place already.

According to the agreement of April 6, 1951, beginning with January 1, 1952, the banks are required to keep 10 per cent of their obligations in liquid means of first grade. This means that the cash reserves in those banks will rise substantially after that date. In addition, the discussions which were held before the October agreement was reached brought out that the main proportion of the extension of credits (as a consequence of the first agreement) 652 flowed out of the accounts for financing imports of 453 vital raw materials and of credits for the support 452 of exports. These conditions do not lie within the banks' sphere of influence (not taking into consideration the directives for credits as laid down in the public investment programs). The occasional considerable reserves of the banks, which are tied up with the allocation of foreign currencies, must be taken into consideration.

It is a fact that the individual measures already showed an impact toward the end of the year. According to the statistics on credits and liquid money of November 30, 1951 (i.e., one month after the enforcement of the second agreement) the volume of credit, which is under control, decreased for the first time since 1947 by 30 million schillings--a rather low amount. Even if one considers the financing of credits for exports, and the especially high financing of credits for the sugar beet harvest, there is a total decline in volume by 80 million schillings at a time when a general increase in credit demands could be observed.

There are today two methods of determining the total of the means of payment in an economy at any given date. The Anglo-American method takes into account the total volume of the means of payments in circulation, plus free obligations of the national bank, plus checking account deposits at the commercial banks, minus interim bank obligations (i.e., deposits of credit institutions at the national bank and at credit institutions). The Continental method does not take into consideration the checking account deposits at commercial banks. (Recently, the Anglo-American method has been used in Austria, too.)

If one compares the development of the volume 436 of money (paper money in circulation, plus checking 652 account deposits, plus free deposits not at the banks 453 but at the Nationalbank) in the previous year, an increase is shown from 14,608 million schillings to 17,164 million schillings since the end of December 1950 to the end of October 1951 as against a credit volume of 10,677 million schillings and 14,780 million schillings, respectively. The circulation of paper money rose in this period from 6,349 to 7,326 million schillings, the checking account deposits from 7,271 to 8,939 million schillings. The free deposits of public agencies, which

[436 are held at the Nationalbank, sank from 988 to 800
652 million schillings in the same period. At the end of
December 1951 the circulation of paper money amounted
453 to 8,023 million schillings, the free non-bank deposits to 987.7 million schillings.

The flow of the volume of money was mainly influenced by the expansion of credits as well as by the flow of counterpart accounts. Exits on the basis of releases and current payments from proceeds caused a decline in time-limited deposits of public agencies at the Nationalbank (mainly counterpart accounts) from 1,941 million schillings at the end of December 1950 to 1,290 million schillings at the end of October 1951.

Bank statements show a considerable reduction in the "Bundesnotenschuld," from 4,124 million schillings in October 1951, and 2,030 million schillings at the end of December 1951. In the first statement after the currency reform of 1947, this item was still 7,547 million schillings higher. The exits in the last four years amounted to about 5,517 million schillings. Out of this amount, 850 million schillings went to retirement of the national debt (as provided for the purpose of securing currency stability on December 31, 1948). Another approximately 4,461 million schillings went to the releases of ECA funds for ERP investments in industrial enterprises; the remaining 205 million schillings went for other economic and political-financial purposes.

Amounts increased, however, for refinancing the reconstruction credits. From December 1950 to the end of October 1951, the increase was from 2,277 million schillings to 3,612 million schillings, and exceeded by 4,042 million schillings the 4 billion limit at the end of December 1951. The subsequent treatment of these blocs of reconstruction drafts (which were no longer handled by the Nationalbank) and their transfer on the capital market has been treated in another connection.

The free endorsement deposits of the credit institutions sank with the extension of credits from 299 million schillings (at the end of December 1950) to 211 million schillings (at the end of October 1951). However, they recovered to 540 million schillings towards the end of December. This increase is very closely related with the obligations of the banks to keep 10 per cent of their credits in liquid means of the first grade.

A comparison of the Nationalbank's position as of the key-dates (December 31, 1950 and 1951) gives the following picture. 652

	1951	1950	+ or -
	(In millions of schillings)		
ASSETS			
Gold	51.1	50.3	+ 0.6
Foreign currencies	582.5	449.3	+ 133.2
Checks	1,709.8	809.2	+ 900.6
Teilmünzen (coins)	2.3	2.8	- 0.3
Reconstruction credits	4,041.9	2,227.0	+1,814.9
Bonds ([illegible]der par. 27 of the Währungsschutzgesetz)	807.0	749.3	+ 57.7
Bonds (under par. 2, item 1, of the amendment of the Notenbanküberleitungsgesetz)	1,402.7	1,200.2	+ 202.3
Loans	34.5	34.7	- 0.2
Money debts of the state	2,029.9	4,123.9	-2,094.0
DEBITS			
Circulation of bank-notes	8,032.0	6,348.9	+1,683.1
Free banking accounts of credit institutions	539.5	428.6	+ 110.9
Others	580.6	987.7	- 407.1
Closed banking accounts of credit institutions	40.3	40.3	--
Others	1,469.3	1,841.4	- 372.1

Finally, one can state that in the course of the year 1951 the total volume of the means of payments increased by 20 per cent, the circulation of bank notes alone by about 26.5 per cent. At the same time there was an increase of the general level of prices by about 40 per cent. [436] [435]

The adjustments and reactions of the last year which are shown in the first half of the year in an extension of and in the last quarter of the year in a contraction of the credit volume are, however, only one side of a total economic problem. The problem itself is characterized by achieving a balance of payments.

D. Balance of Payments, Production, Investment.

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The problem is to carry out economic aims within the framework of inter-state coordination and the solving of certain intra-economic problems (problems of structure and priority). This is a specific Austrian task which must be attained by an increase in the transfer of production, by the rise of productivity, by an alteration of the structure of employment and foreign trade. The latter is a problem of international cooperation and of easing tensions in world politics.

Austria was dependent upon close international cooperation and international help from the start. This was due, for example, to the economic and political burdens such as the loss of a considerable capacity of production, which constituted a heavy drain upon the newly reestablished independent status of Austria achieved in 1945; new currency and credit policy foundations; the creation of an industry adapted to changed world economic conditions, which could be achieved only over a long period and only with the help of foreign aid. The situation of Austria is essentially different from that of western European countries which, at least after the outbreak of the Korean conflict, suffered only one-sidedly by the dollar shortage. Their balance of payments against countries with soft currencies were, on the average, favorable.

The following table shows the development of the Austrian balance of payments during recent years.

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	1947[a]	1948	1949	1950[b]
	(In millions of schillings)			
A. Current Expenditures				
Import of Goods	312.0	489.8	603.7	481.6
Invisible Expenditures	4.3	6.0	21.1	28.5
Total	316.3	495.8	624.8	510.1
B. Current Income				
Import of Goods	90.7	206.9	291.5	335.0
Invisible Income	19.8	21.7	37.8	46.1
Total	110.5	228.6	329.3	381.1
C. Deficit of the Current Balance of Payments	205.8	267.2	295.5	129.0
D. Increase in Deposits of Foreign Currency	7.3	19.4	11.1	30.3
E. Debt Liquidation	--	8.0	7.5	6.9
F. Statistical Correction	+ 6.0	+ 6.7	- 1.3	+45.5
G. Import of Capital, including Aid Deliveries	219.1	301.3	312.8	211.7

a) According to estimates of the International Monetary Fund.

b) 1948, 1949 and 1950: According to reports of the Board of Directors of the Austrian Nationalbank.

In spite of the initial difficulties and in spite of the impossibility of taking up the threads of development as they were before 1937 (attention is called to fundamental changes in the political, economic and social structure of central and south-eastern Europe), Austria was able to hold to a level which secured inner stability and an equilibrium in external relations. With the help of foreign aid granted in the last few years, Austria was thus able to achieve, among other things, a balance of payments.

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Since 1946, when the gross national product available for consumption and investments (goods and services) had sunk to almost half the prewar amount, the gross national product and productivity has been doubled in the last few years. By 1950, the prewar level was exceeded by 10 per cent. In the same period industrial production increased two-and-a-half times and the volume of the total agricultural production increased by approximately one-half. A relatively high

433 investment rate as well as an increase of the general
434 level of consumption was made possible by this extension of the gross national product.

In 1951, the gross national product (according to provisional calculations and estimations of the Oesterreichische Institut für Wirtschaftsforschung) increased by about 7 per cent in spite of production bottlenecks. This figure, however, is slightly lower than in 1950 (10 per cent), but still higher than could be expected in a normal economy. This increase was almost exclusively due to the industrial production which, owing to the 10 per cent rise in productivity, could produce 14 per cent more goods than in 1950. In this way reactions on the level of prices could be neutralized in some ways
[457] through the greater quantity of goods. However, as the exchange conditions in Austrian foreign trade deteriorated by 10 per cent, and as the increase in prices on the world market lowered the real value of foreign aid by one-third, the Austrian economy in 1951 had only about 4 per cent more goods and services (i.e., about 2.3 billion schillings) for consumption and investments at its disposal than in 1950. Tourist traffic showed an increase of about 20 per cent more overnight guests in 1950-51 than in the preceding season, but the remaining sectors of economy, especially agriculture, showed only slight progress.

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454 In the previous six years, especially since 1948, a far greater part of the gross national product was invested than before the war. In 1937 only about 6 per cent of the available gross national product was used for investments. The percentage increased from 17 per cent in 1948 to 20 per cent in 1950. As a comparison, the annual average in Great Britain is about 18 per cent. In 1951 the increase of the gross national product invested reached its highest extent, about 21 per cent. The greater part of these investments was carried out within the scope of the public budget or through special funds (for instance, reconstruction fund for dwelling units) and out of ERP funds. (In 1951 about 3.7 billion schillings flowed in from the purchase of ERP goods upon counterpart accounts). The high level of the investment rate, however, was only possible with foreign aid. It will be one of the main considerations of the Austrian economic policy to keep to or divert an adequately high rate after the end of the Marshall Plan. In this connection the adjustment between the investment rate and the monetary stability as well as the distribution of investments between

industries of production goods and consumer goods, will gain top importance. 434 454

During the Marshall Plan period preference was given to short-term investments within the scope of the Austrian Investment Program 1950-52. The aim [457] was to ease the strain on the balance of payments, either by an increase of exports or by a decrease of the import demands, whether by direct or indirect means (for instance, by lower prices for semi-manufactures in industries which depend upon exports). The decisive factor for the selection of investments 652 was the degree of contribution to the balancing of 454 payments within the shortest time possible. This had 457 to be coordinated with the requirements for big projects which had been started or were far advanced. In this way the projects could be completed in a technically and economically sound way. By finishing the started projects, especially in electric energy and in the iron and steel industry, Austria should be enabled to use its rich natural resources (water power, iron ore) as rationally as possible and better than was the case before. In view of the low capacity of the domestic capital market these projects had to be carried out, as far as possible, within the ERP period. In spite of the continuation of big industrial projects, the main tendency of the three-years' program (1950-52) is to give industries and crafts which need export outlets as well as the tourist traffic higher counterpart sums in the last two years than they received in 1948-49. It is self-evident for reasons of export and social policy that the investment plan tries to support, above all, small and medium-sized enterprises of the semi-manufactures category and the crafts.

Development of the most important economic 433 fields is on the average satisfactory. One has to consider, however, that the full results of investment pro- 327 jects, especially the big ones, will not show up until 1954-55. Most impressive has been the development of the iron producing industry. Thus, for instance, in 1950 about 15 times more raw iron and 5 times more raw steel and rolled products were produced than in 1946. The production of the iron producing industry surmounted that of the prewar level in 1945. Compared to 1937, by 1950 the production of raw iron was higher by 128 per cent, that of raw steel by 46 per cent, that of rolled products by 37 per cent, and that of pressed and wrought iron products by as much as 246 per cent. This development continued in 1951. Thus, the production of

433 raw iron was increased to about 1.04 million tons (as
[387] compared to 883,000 tons in the preceding year) and
the raw steel production to about 1.03 million tons (as
compared to 943,350 tons in the preceding year). This
increase in production was possible through an increase
in mining output, which amounted to approximately 2.37
million tons in 1951, as compared to 1.86 million tons
[398] in 1950. In the car industry, emphasis lay on the pro-
duction of tractors, heavy trucks, busses and motor-
[392] cycles. Agricultural machinery production was 119 per
cent higher in 1950, lathes 110 per cent higher, ball-
bearings 327 per cent, nails and screws 56 per cent
more than in 1937. Although the electrical industry
[393] had suffered most seriously from war damages and dis-
mantling, and although various raw materials, mostly
of foreign origin (such as electric thin-gauge plate,
copper, lead and various special products), could be
obtained only with difficulty, the total production in
1950 was double that of 1937. This favorable development
has continued in 1951 despite the shortage in raw
[387] materials. The chemical industry reached a capacity far
higher than before the war in spite of extensive war
damages. The Linz Stickstoffwerke, for example, not
only cover the domestic demand for nitrogen but export
considerable quantities of nitrate of lime and phos-
phate. Production of the latter amounted to 525 tons
per month in 1938, during the first six months of 1951
it reached an average of 35,000 tons per month. The re-
sults in some finishing and consumer goods industries
lagged behind, but even so substantial increases could
be reached, especially in enterprises which are important
[289] for export (for example, the paper industry). By 1950
three per cent more paper was produced than in 1937.

[316] A remarkable increase was made in domestic
soft coal mining. The production of electric current
[377] rose from 3,050 million kwh, 1946, to 4,911 million kwh,
1950, an increase of 61 per cent. This remarkable in-
crease of capacity in 1950 is almost exclusively due to
water power, the production of which increased to 690
million kwh. In extending and financing electric power
projects differentiation must be made between finishing
started projects (water-power plants, steam plants,
transmission lines and transformers), new construction,
international projects, export, and projects of local
importance (see Wirtschaftsberichte No. 12, October 1951:
"Oesterreichische Wasserkräfte als Beitrag zur Energie-
versorgung Westeuropas," by Erich Heller and Oscar Vas).

Industrial Production Index - Comparison of Averages for October (monthly average 1937 = 100) 433

	1951	1950	1949
Total Index of Production	180.3	145.4	122.8
Production Goods	230.7	178.6	151.6
Consumption Goods	138.8	117.3	98.3
Total Index of Productivity	105.7	91.8	82.1

Although agriculture and forestry showed [311] some results production was lagging behind due to many soil-improvement measures which were neglected during the war. It remained behind the prewar level. Further investments are now being made in this field. Considerable increase can be seen in the traffic capacity [497] of the Federal Railways. The extension of electrification, modernization of traffic installations, of rolling stock, and of railway stations are among the projects.

Tourist traffic is of special importance to 457 achieving balance of payments. Tourist traffic was one of the most important foreign currency earners before 1937. In 1948-49, 31.6 per cent of the number of overnight guests for 1937 was reached. This proportion rose to 70.4 per cent in 1949-50 and to 74.3 per cent in the winter season of 1950-51. However, the income from foreign tourist traffic lagged behind that of the prewar period. It amounted to 15.1 million dollars in 1950. With regard to its purchasing power, it reached one-fifth of the 1937 level. In this field also investments for modernization and extension of enterprises are continuing. The aim is to reach a reasonable balance between investments and incomes from foreign currencies. Similarly motivated is the [529] aim of opening areas of the country which might be very important for tourist traffic by building new roads and means of transport, such as cable cars and ski-lifts. In the investment program for 1950-52 net investments of 960 million schillings are provided for this sector alone.

The main vehicle for the balancing of payments is foreign trade.

E. Foreign Trade.

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457 Austria's foreign trade was naturally effected by the outbreak of the Korean crisis. In the beginning it caused considerable increases for Austrian exports. In the following period, however, import prices rose above export prices creating a discrepancy between the trade balance and the balance of foreign currencies in the spring of the year. A number of legal regulations were necessary. Intensification of Austrian foreign trade, therefore, becomes one of the most important economic-political assignments in connection with the end of the Marshall Plan. (See Monatsberichte for January 1952: "Ausfuhrsteigerung-erstes wirtschaftspolitisches Gebot." Compare especially what is said about the abolishing of the quota, which will not be changed, and about the material supports to raise the export trade, especially the extension of exchange business.)

[648] In the last quarter of the year, a committee of the EPU in Paris was discussing this problem which is of paramount importance to Austria. It stressed the urgent need for further developments in this sector since Austria shows a permanent deficit account in its clearing with the EPU. This deficit reached an amount of 5.4 and 5.5 million dollars in October and November, respectively, while foreign aid in an amount of approximately 8 million dollars was allocated for these two months. The balance must be supplied by the Nationalbank out of its own reserves.

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439 By means of trade agreements Austria endeavors to extend the scope of its obligations to the European area as well as to overseas areas. (In the following, explanations are based on: "Die Handels- und Zahlungsabkommen Oesterreichs" by Dr. Helmuth Boller, chief of the Trade Policy Section of the Bundeskammer der gewerblichen Wirtschaft, Vienna.) Certain progress could be reached. Thus, the lack of trade agreements with the Iberian peninsula could be corrected by the conclusion of a commercial agreement with Portugal. Toward Spain there are only feelers of a trade and political character. Indonesia joined the ranks of overseas agreement partners. New trade agreements were reached with Belgium, Luxembourg, the Netherlands, and Poland to replace former agreements which had expired. Trade agreements were renewed with Argentina, Brazil, Denmark, West Germany, France, Italy, Yugoslavia, Norway, Rumania, Sweden, Czechoslovakia and Hungary in 1951. As a rule, the formation of the goods

traffic on the basis of hitherto valid agreements were revised and new goods lists for the future worked out. The new agreements are, in general, valid for only one year. Additional payment agreements could be reached with Belgium, Luxembourg, Brazil, the Netherlands, Poland, and Portugal at the same time the commercial negotiations were concluded. (At present there are twenty-three payment agreements.) Payment agreements not connected with commercial agreements now exist with Great Britain, Canada, and Uruguay, and commercial agreements without corresponding payment agreement with India, Ireland, Indonesia, and Pakistan.

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If one groups the concluded commercial agreements according to basic common features, one can see that an extensive adjustment of the regulations to the decisions of the OEEC and the EPU took place in the so-called OEEC countries in 1951. Basically, the principle of Liberalization was stressed in all bilateral commercial agreements with OEEC countries in accord with obligations which result from membership in the OEEC and EPU. The lists drawn up are restricted to goods not covered by the general liberalization.

The paramount importance problems about the supply of raw materials caused a remarkable shift toward fixed promises for deliveries. In many cases the partners not only worked out lists for the import of non-liberalized goods but they added additional lists creating fixed promises for the allocation of export licenses in the form of delivery contingents. Austria uses agreements of this kind in its trade with West Germany, France, Italy, the Netherlands, and Portugal. All these agreements with OEEC countries also have in common the basic renunciation of the principle of compensation and its replacement by the so-called "clearing agreement." In 1951 even the last agreement based on bartering had to cede to this principle. The trade agreement with the Netherlands of December 13, 1947, which represents the type of mixed agreement, was replaced by a new trade agreement of February 5, 1951, which actually adopted the standards of those clearing agreements which were reached with other OEEC countries.

The renewed agreements (not in the framework of OEEC and partly only prolonged former agreements) with Bulgaria, Poland, Rumania, and Czechoslovakia do not show essential changes as compared with the preceding year. On the grounds of merely bilateral basis, the

457 balancing of the bilateral trade balance sometimes
048 causes considerable trouble. The trade agreement
439 with Yugoslavia was considerably extended by a credit
for goods to the amount of 10 million dollars which Austria granted to that country; the goods have been almost totally delivered. The goods credit, starting with the year 1952, must be balanced by Yugoslavian counter-deliveries. The new discussions about a trade agreement with Yugoslavia were begun on January 7, 1952.

Among the overseas agreements, those with Argentina and Brazil contain very interesting new elements with regard to the techniques of agreements. Thus, for instance, the listing of the items of Austria's exports to Argentina is extremely detailed. One is certain that the establishment of a permanent Mixed Commission with its seat in Buenos Aires will be a success. It is the Commission's task to control observance of the agreement and the development of the goods traffic. In the agreement with Brazil the new method of balancing payments is most interesting because it deviates from the usual scheme. The establishment of annual accounts for the balancing is most remakable. At the end of the year in which the agreement operates, the amounts will be balanced and replaced by a new annual account for the following period of the agreement. It is equally remarkable for the regulation that a payment of a credit account will be demanded only to the extent in which import licenses actually were issued by the competent authorities after ordinary application procedures.

In the first months of the coming year further agreements with Brazil, Bulgaria, Denmark, Greece, the Netherlands, Norway, Pakistan, and Sweden are to be concluded. Existing agreements are to be renewed or prolonged.

457 The achievement of the balance of payments
is the aim to which all endeavors of the economic
652 policy must be subordinated. As explained in the foregoing, these endeavors contain those measures which are to restrict the inflationary development. The craft segment of the economy under the direction of the Bundeskammer der gewerblichen Wirtschaft started various measures of material and psychological importance toward the end of 1951. Among these measures was price reduction (see Monatsberichte for November 1951 (No. 31): 'Die ökonomische Bedeutung der Preissenkungsaktion").

The same aim is to be reached by an increase of the production with regard to quantities, by the balance between the production-goods and consumer-goods industries and by regard to necessities arising out of the export policy. In this connection, not only problems of an increase in productivity were discussed, but also fixed legally-based calculation principles (Eröffnungsbilanzen) were created which make it possible to strike an unassailable balance and to tax sham profits. 652 457

F. Liquidation of Marshall Plan Aid and Future Planning.

The Marshall Plan is drawing to an end; it expires, according to the Foreign Aid Law of 1948, at the end of June 1952. That the American Marshall Plan administration, the ECA in Washington, has ceased functioning and the Mutual Security Administration started its activities as of January 1, 1952, do not alter the basic principles of Austria's economic policy (see Monatsberichte for January 1952: "Vom Marshallplan zum Mutual Security Agency"). [648] 652 457

This is a fast-moving age in which we live. People almost forget that at the bottom of such a complicated program of procedures as the ERP allocations, of the releases from the counterpart funds, from the direct and indirect aid, from the drawing rights, and from the EPU, there was a relatively simple, but nonetheless, grand idea which aimed at the economic and social reconstruction of the war-torn European continent and the cooperation of the European countries in a free and comprehensive European market. Out of the 13 billion dollars supplied in the Reconstruction Program by the American taxpayer for Europe, Austria got 1 billion dollars for the purchase of bread and fodder grains, cotton, oil, and fats, for payment of overseas freight, for the extension and rationalization of its mining and industrial plants, for carrying out the enormous power-plants, for the reconstruction of its traffic network, and for its recreational and tourist traffic establishments. These dollar means, which were represented also in the counterpart accounts, served immediately or mediately in connection with aid deliveries to supplement investments and necessities in various enterprises.

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This comprehensive aid will cease in the middle of 1952. Austria will be right in stressing the fact that, owing to its far lower level of total economic well-being (as compared to the other ERP countries), the full results of all these measures and investments cannot be forthcoming earlier than 1954-55. Moreover, the further amalgamation of markets in Europe may be expected in connection with increasing competition, by which a reasonable compactness of all new investments within the European Investment Program will be provided. On the other hand, there are a number of most decisive problems of economic policy which must be solved by the beginning of the new fiscal year. The manner of mastering these problems must be of top-ranking importance for the economic and social development of the country. Although the measures taken in the sector of currency and credit policy must not be overestimated in their impact upon stabilizing money values, the increase of production and productivity is a corollary of the organic compactness of the structure of the total economy. In this way single elements may be most fully developed. Bearing this in mind, the appropriate authorities pointed out that the American aid sources, which will be available for only a short time, must be used up in carrying out those economic measures which are considered most important. To coordinate the measures concerning the total economy, the single appropriate ministries have been ordered to make proposals to the Wirtschaftsdirektorium of the government at the earliest possible date. These proposals are expected shortly. They will deal, among other things, with the necessary structural changes of the public budget which take a considerable portion of the gross national product.

Establishment of a balanced budget on the basis of the most economical use of expenditures is one of these. In connection with this, there will take place an organic reform of administration, especially with respect to not burdening the public budget with further expenditures of this kind; strict observance by the appropriate ministries of expenditure limits set in the provisional budget; liquidation of the problems of subsidies. (In relation to the preceding years the budget of 1952 tends to make the government the vehicle of a comprehensive investment policy in view of the decreasing counterpart funds. In this respect the government takes over functions which need most careful consideration from the standpoint of the

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currency policy as well as that of profitableness. The transfer of such assessments or of such means as may be set aside for these purposes will be one of the most urgent tasks of the economic policy.) The apparently favorable development of incomes must not deceive anyone about the precarious budgetary situation. It will lead necessarily to saving measures in the current year if the stability of the currency is to be achieved, which is the real aim of the economic policy (see following table).

PROVISIONAL REVENUES OF PUBLIC TAXATION IN 1951

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Federal Finance Law "Public Taxes" 1951, Chapter 17	Provisional Revenues 1951	Federal Budget 1951 (including supplements)	Difference (including supplements)
	(In Thousands of Schillings)		
Direct Taxes:			
Assessed Income Taxes	1,804,126	1,800,000	+ 4,126
Wage Taxes	1,637,415	1,433,000	+204,415[a]
Corporation Taxes	599,489	532,000	+ 67,489[b]
Property Taxes	66,231	53,600	+ 12,631
Business Licenses	1,000,832	886,000	+114,832[c]
Occupation-cost Contributions	515,043	448,086	+ 66,957[a]
Other Direct Taxes	20,857	17,700	+ 3,157
Total of Direct Taxes	5,643,993	5,170,386	+473,607
Turnover-Tax	2,303,551	2,214,000	+ 89,551[d]
Added Charge to Turnover-Tax	1,152,596	1,107,000	+ 45,596[d]
Customs Duties	305,013	300,000	+ 5,013
Consumer Taxes:			
Tobacco Tax	1,069,513	1,050,000	+ 19,513
Other Consumer Taxes	504,721	490,760	+ 13,961
Total Consumer Taxes	1,574,234	1,540,760	+ 33,474
Duties and Traffic Taxes	886,115	844,400	+ 41,715
Extra Fees, Fines and Damages	67,098	64,000	+ 3,098
TOTAL INCOME	11,932,600	11,240,546	+692,054
Deductions:			
Transfers to Federal Countries and Municipalities	3,563,849	3,492,393	- 71,456[e]
Remaining Net Income	8,368,751	7,748,153	+620,598[*]
Contributions to the Reconstructions of Dwellings out of the Revenues	383,250	f)	f)
Contributions under the Law of Reconstruction of Dwellings	39,363		

a) A surplus caused by the higher employment and by wage increases under the fifth Wage and Price Agreement. b) Surplus based on carry-over from the preceding year. c) A surplus from back-payments on 1950 assessments. d) Higher turnover. e) In addition, the federal countries will get about 270 million schillings. f) Not assessed in the federal provisional budget, since these amounts flow directly into reconstruction funds for dwellings.

SOURCE: Mitteilungen des Direktoriums der österreichischen Nationalbank, January, 1952.

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[*] The surplus serves to finance investment expenditures of about 560 million schillings which is not provided for in the Federal Finance Law of 1951 and which are not covered by ECA releases; they also are to cover surplus expenditures of the Federal Railways caused by price increases.

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Supporting the creation of capital and the establishment of a capital market of high capacity involves evaluating the possibilities for transferring direct taxes to indirect taxes and the reform of the savings system. The main problem of any stressed creation of capital lies with the reconstruction of a constant purchasing power of the currency. This problem must be solved from the standpoint of prices and wages as well as from that of taxation. Underpinning the purchasing power can be accomplished only by an increase of capacity and by constant and, if possible, decreasing costs in the most important fields of production. It also means a rational treatment of the capital profits, especially to avoid eventual double taxation. Stocks are again to become an instrument for financing the economy, not merely a vehicle to insure the substance of the economy; they should be means of profitable investment. New types of securities are to be admitted on the stock exchanges which have already proved successful capital elements at foreign stock exchanges. Also measures to strengthen the feeling of confidence (Mündelsicher) by up-to-date regulations for investment and, if necessary, the introduction of par-value guarantees in certain cases will be taken.

The investment policy comprises adjustment of the extension of investments to the available means and, if necessary, extension of certain big projects to a longer period; examination of investments from the standpoint of currency stability and the balancing of the budget; progressive harmonizing of the investment policy for primary materials and the finished goods industry to avoid structural distortions and to achieve a reasonable balance between the offer of goods and the volume of means of payment.

Increase of productivity means simplification of production programs and production methods; better utilization of machinery to secure a continual supply of labor; creation of an atmosphere of confidence within the plants to assure a frictionless cooperation of both social partners; closest cooperation of all authorities concerned with the furtherance of productivity; spreading the idea of productivity from the level of the single unit to the whole economy.

Intensification of foreign trade involves continuation and completion of measures favorable to exports; individual furtherance of exports; simplification of the foreign trade procedures; creation of

000 special centers of gravity in investments to support industries and enterprises which are ready and ripe for exporting intensification of market research; continuous improvement of the trade and payments agreements with all countries based on the principle of upholding the political integrity of Austria.

Another project is progressive liquidation of relics of the preceding era, especially those losses in value which were caused by the war and postwar events. Among those measures is the "Schillingseroffnungsbilanzgesetzes."

These projects, of course, do not exhaust the matter; they are single elements in a total economic conception which aims to secure a reasonable development of real income and to avoid the possibility of future price increases. The abolition of remaining subsidies and of deficits (above all, those of the Federal Railways) might follow.

The year 1951 was a period of crisis. For the world, and for Europe, it ended without overly sharp economic and social reactions because of the vigorous defense against inflation and various shortages. There are several vital problems of worldwide and local importance not yet resolved, but one can consider the increasing and well-established international cooperation (in spite of all tensions) as a pledge for favorable future developments. Cooperation of the European and continental communities means a strengthening of the economic and social life of Austria itself.

But one must add that none of the economic measures will be realized unless they appeal to all citizens, creating that kind of patriotism which enables a country to overcome immediate difficulties by supporting a social order, the foundation of which is work, responsibility and a consciousness of duty. From these fundamentals a gross national product can arise which will insure a higher standard of living for the people and, by achieving this, a real dignity and self-esteem will be born.

V. TRANSITION PERIOD (First Half of 1952)

A. The General Picture.

With the end of the Marshall Plan in the middle of this year, the 17 European ERP countries (among them Austria) will have to face a number of rather difficult decisions in the realm of economic policy. If one totals up the grants of aid which Austria got within the scope of the Economic Cooperation Act of 1949, and of the Foreign Aid Law of April 3, 1948, in the course of the last four years under the title of direct and indirect aid, and under the EPU, the allocated dollar means and goods and services altogether amount to 833 million dollars. Allocations for the single years were:

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1948-49 - 270 million dollars
1949-50 - 253 million dollars
1950-51 - 190 million dollars
1951-52 - 120 million dollars

In the schilling balance, the inflowing counter-value to the ERP aid deliveries amounted (in counterpart funds) to 13,243 million schillings with the key-date of February 29, 1952 (according to the statistics of the Austrian Nationalbank). (The principles contained in the agreement and the technical procedures of carrying out these aid programs are quoted in the "bilateral agreement" between the USA and Austria on July 2, 1948.) Out of this amount 775.0 million schillings were used for monetary purposes, 7,275.0 million schillings for financing the Austrian investment programs and 682.3 million schillings for other economic expenditures. The above-mentioned grand total does not contain the counter-value of 478.2 million schillings which was granted in the period from July 1, 1947, to December 31, 1947, under U.S. Relief appropriations (UNRRA, congressional interim funds); they also do not contain such credits as the pound-sterling credit, Export-Import Bank credits, surplus credits and War Assets credits, etc.

The conditions and developments described in the preceding sections for the year 1951 were the result of these financial aids, together with legal and organizational provisions made since 1945 and the attitude of the Austrian people. It should not be forgotten that the economic level of Austria was far lower than that of the other ERP countries. Therefore, in

652 457 restoring Austria's living conditions a number of problems had to be faced which could not be mastered by the country alone. Moreover, an economically smaller country which is about to change the whole economic structure is more sensitive toward the trends on the world market. Its economic and political possibilities are more restricted than those of big continental powers.

The above-mentioned elements, as well as the thoroughgoing changes which have taken place in the traditional pattern of Austria's trade with southeastern Europe, must be borne in mind when judging Austria's total economic situation.

652 Austria used all possibilities under the ERP as intensively as possible. It has replaced its war damages to a great extent. It has rebuilt its industrial and agricultural production within the limits of given conditions. It has again reestablished connections with European and overseas partners and restored the functional capacity of its money and credit system. Hindrances to these developments were: losses in substance, structural time-limited transfers, existing political encumbrances, and, not least, the recent impact of world economic conditions (Far East crisis). These are the reasons that the aims which were generally set forth by the ERP could not all be realized within the time provided in the program. This is a fate which Austria has in common with other ERP countries to varying degrees.

The problems which Austria has to face after the end of the Marshall Plan are the same in all other ERP countries. Although the capacity and the means may be very different, to restrict the loss of the gross national product in a socially bearable way is the main task. Now the top problem becomes the maintenance of a workable and humane order of economy and society. Various factors will play a role, among them are: a synthesis between captivity and freedom, regard for law and natural development, the cooperation of all political and social forces, the cooperation of individual markets within the framework of sound competition and real prices and the like.

000 No specific social and economic order is autonomous; it is only a part of a great network from which it receives specific impulses and on which it

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exerts such impulses. This order, therefore, can flourish only within a bigger regional or continental order to which it is bound and from which it receives concepts and principles.

Europe and, at the same time, Austria are now in a transition period in which it must be their primary aim to maintain the present results and to achieve new forms of inter-continental cooperation. No doubt it will be necessary to make some material shifts and changes in time, as well as to overcome certain bottlenecks, in order to prevent a sinking of the gross national product until the new developments can be coordinated. To analyze the total situation one must contemplate the present status of the market and Austria's own potentialities.

Almost 12 months have passed since the "Korean boom" was stopped and replaced by partly sharper reactions in prices. For almost six months the price index showed a sinking tendency until, in the last quarter of 1951, a new balance could be observed at the bottom of which were serious shifts in the structure of prices for raw materials. While the quotations of most "dollar goods" were rising slightly, the prices of sterling-pound products were sharply reduced. This development led to a critical state of the British balance of payments and made it necessary to start a crisis-program in three stages (November 1951, February 1952 and March 1952). [The British White Paper, published by the British Treasury on April 5, 1952, gives the following explanations about the development of the British balance of payments: the official provisional estimate of the total deficits in the last year amounts to 521 million pounds sterling as compared to assets of 244 million pounds in 1950; this development was caused also by the loss of the Iranian oil (in addition to the above-mentioned shifts in economic developments).]

In the first quarter of 1952 the prices on the world market began to slide again. Moody's Index for "Staple Commodities" (December 31, 1931 = 100) was at 435.6 at the end of the quarter as compared to 458.8 for the previous year's quarter. The lower tendency showed itself in time-restricted prices, but even more at spot prices. The Dow-Jones Index for "Spot Prices" (Average 1924-26 = 100) was reduced from 194.73 on December 31, 1951 to 191.67 on March 31, 1952; on the same basis the index was calculated for time restricted prices, showing a decrease from 189.35 to 179.64 on the same dates. Owing to the extraordinarily low prices for rubber and wool there were sharp decreases of prices in the first quarter of the year; they were sharper than for "dollar goods." The fact that tin and cocoa were higher in price does not alter the above picture (this holds true for tin because of the British-American agreement on tin comprising about a quarter of the offers of "sterling tin"). The prices for cocoa showed the same tendency by reason of the extraordinarily bad harvest prospects.

Further developments may show very different tendencies. The drop in prices for raw materials may be stopped by the renewed extension of demands or they may even rise again because of "non-commercial purchases," i.e., government purchases in order to stock supplies in the United States; this may also be affected by the conclusion of international agreements concerning the markets. (These problems were dealt with by those special committees whose task it is to control the development of single raw materials. They were handled also by the committee on commodity problems of the FAO.) Further developments may also be influenced by measures of credit and interest policy. All these developments may constitute a certain relaxation for the balance of payments of the individual national economies, a circumstance which would have a favorable influence upon the various economic systems.

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The Development of the Most Important Raw Material Prices

GOODS	QUOTATION BASIS	End. Aug. 1939	Mid-1945	End. 1950	End. 1951	End. Jan.'52	End Feb.'52	End March'52
Wheat	Chicago Cents per lb.	67.25	168.--	243.75	256.38	252.25	260.88	251.12
Corn	Chicago Cents per lb.	43.65	117.63	173.--	191.25	187.25	180.25	185.25
Copper	New York Cents per lb.	10.50	12.--	24.50	27.50	27.50	27.50	27.50
Tin	London £ per long t	230.--	300.--	1150.--	905.--	987.50	976.50	963.--
	New York Cents per lb.	48.75	52.--	152.--	103.--	121.50	121.50	121.50
Lead	New York Cents per lb.	5.05	6.50	17.--	19.--	19.--	19.--	19.--
Zinc	East St. Louis Cents per lb.	4.75	8.25	17.50	19.50	19.50	19.50	19.50
Cocoa	New York, Accra Cents per lb.	4.13	8.81	34.25	32.50	37.--	38.37	38.37
Coffee	New York, Santos 2. Cents per lb.	5.80	16.38	54.82	53.23	54.36	53.98	53.67
Cotton	New York Cents per lb.	8.82	23.07	44.17	42.74	42.80	41.20	42.55
Lard	Chicago Cents per lb.	5.45	nom.	16.38	12.63	12.50	10.13	10.25
Rubber	London d. per lb.	8.75	nom.	55.--	41.25	40.--	33.--	32.50
Sugar	New York, Nr. 4 Cents per lb.	2.90	nom.	5.50	4.79	4.45	4.24	4.37
Wool*	Brit. Auctions 70er d. per lb.	22.50	nom.	235.--	144.--	135.--	126.--	116.--
	48er d. per lb.	15.--	nom.	146.--	72.--	65.--	65.--	51.--
Raw Oil	Midcontinent Cents per barrel	82.--	117.--	257.--	257.--	257.--	257.--	257.--

* The prices for wool are, in contrast to other prices, monthly average prices.
nom: nominal quotations; it may also indicate that there were no free quotations fixed on these key dates.

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A review of the total situation will show that the present condition is a process of stabilization, serving to fulfill the demands of certain economic-political principles concerning market economy. It will result in a general reduction of business, lessening the tendencies for consumption goods for single countries. The crucial point in all these considerations, however, lies with the long-term business cycle. Developments in the United States remain decisive for the whole present condition of the world market. In American developments experts refer to the following features: expenditures due to rearmament; the considerable capacity reserves due to the increasing scale of savings; the governmental subsidies for aged persons no longer productive (about 80 to 150 dollars per month); the increase of the American population (since 1930 by 34 million and since 1940 by 25 million) and of world population (in the last 20 years by about 400 million). (The research of the Irving Trust Company finds that the rate of savings of the American population has gone up from 4 per cent to about 10 per cent of the annual national income since the last quarter of 1951; this does not only constitute a considerable reserve of purchasing power with regard to a possible decrease in business, but also forms an essential factor in fighting inflation.)

Furthermore, the report of the Irving Trust Company stresses that American industry has set up a considerable extension program, in the framework of which the production of steel will increase by 11 per cent, that of aluminum by 65 per cent, of petroleum by 14 per cent, and that of energy by 40 per cent. After that, the national production of the United States will increase by 5 per cent in the present year as it did also in the previous year. (The reader is referred, in this connection, to the reports of the Bankhaus Bär and Co., Zürich, "Wochenbericht" No. 14, April 4, 1952; analyzing the state of business. It comes to conclusions similar to those expressed by the American economic expert, A.S. McLeod in the magazine U.S. News and World Report.) The spring programs, providing a projected extension of the European production, will be discussed later.

B. Developments in the Field of Trade and Payments.

If one considers conditions when the laws of economic policy were issued in the spring of 1951, one will see that the discrepancy between the sharply increasing prices of imports and the lagging prices for exports led to a discrepancy between trade balances and currency balances. This was the case despite shortages of the most important raw materials and in spite of a relatively favorable trade balance. In view of this, not only the direct aid was used up in a shorter time, but the "Initial Position" supplied by the EPU was exhausted to a far greater extent in the counter-value of 80 millions. The deficit eventually was covered by additional funds for direct aid in the amount of 18.2 million dollars from EPU and a sum of 10 million dollars from the "Special Resources" of the ECA, awarded in view of the special conditions of Austria. To an extent it was also covered out of the limited reserves of the Austrian Nationalbank. 439 457 652

The later decline of the prices of raw materials made the reduction process slower. This was the case especially with finished goods because of the natural alterations concerned with the various stages of the program. A number of these goods not only reached the maximum prices in the world market, but also the amount in the following period. The total development is reflected in the table of the balance of payment. The figures for 1949 and 1950 are used for comparison.[1]

[Cf. category 116, pp. 132-133--Analyst]

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BALANCE OF PAYMENTS OF AUSTRIA FOR 1951 (Final)*

--A Comparison of 1950 and 1949--

(In Millions of U.S. Dollars)

EXPENDITURES	1951 (Quarters) Fourth	Third	Second	First	1951	1950	1949
I. Imports							
Commercial Imports of Goods (incl. ERP, indirect aid)	146.78	126.08	131.68	120.56	525.10	357.30	397.29
ERP Deliveries (direct aid)	28.55	34.10	38.40	26.58	127.63	119.48	194.20
Private Charity Deliveries	0.60	0.60	0.60	0.60	2.40	4.10	9.34
Other Deliveries	---	---	---	---	---	0.11	0.99
Supply of Current	---	---	---	0.00	0.00	0.61	1.90
TOTAL	175.93	160.78	170.68	147.74	655.13	481.60	603.72
II. Services and Interest							
Freight and Transport	7.93	7.39	3.95	4.17	23.44	15.72	9.29
Tourist Traffic	1.34	2.29	1.35	0.98	5.96	3.63	2.61
Posts and Communications	0.10	0.08	0.07	0.09	0.34	0.45	0.35
Diplomatic Service	0.25	0.41	0.48	0.33	1.47	1.58	1.70
Insurance	0.11	0.16	0.20	0.18	0.65	0.25	0.37
Other Services	3.03	4.73	3.02	2.08	12.86	6.37	6.16
Interest	0.06	0.11	0.09	0.14	0.40	0.53	0.58
TOTAL	12.82	15.17	9.16	7.97	45.12	28.53	21.06
III. Capital Flow							
Net Alterations of Foreign Credits	1.01	3.56	---	---	4.14	2.05	---
Net Alterations of Short-Term Foreign Accounts & Obligations	0.67	12.69	---	1.36	8.43	30.27	11.05
TOTAL	1.68	16.25	---	1.36	12.57	32.32	11.05
Unexplained Accounts	---	4.47	1.46	22.07	16.75	42.40	---
TOTAL EXPENDITURES	190.43	196.67	181.30	179.14	729.57	584.85	635.83

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5: Heissenberger S-4.5 (no date) 1953

EK1 Austria EK1

INCOME

I. Exports							
Export of Goods	124.26	118.59	109.15	96.41	448.41	325.50	285.86
Deliveries of Current	1.46	1.52	1.54	0.89	5.41	6.42	5.67
TOTAL	125.72	120.11	110.69	97.30	453.82	331.92	291.53
II. Services and Interest							
Freight and Transport	1.72	1.60	2.97	1.52	7.81	6.94	10.01
Tourist Traffic	2.39	13.79	4.34	3.38	23.90	15.05	3.48
Post and Communications	0.15	0.14	0.21	0.10	0.60	0.80	1.05
Diplomatic Service	0.39	0.34	0.43	0.21	1.37	1.36	0.37
Insurance	0.03	0.04	0.02	0.01	0.10	0.08	0.05
Other Services	11.48	10.75	6.93	6.50	35.66	21.91	22.82
Interest	0.15	0.20	0.19	0.18	0.72	---	---
TOTAL	16.31	26.86	15.09	11.90	70.16	46.14	37.78
III. Capital Flow							
Net Alterations in Foreign Credits	---	---	0.23	0.20	---	---	5.20
Net Alterations of Short-Term Foreign Accounts & Obligations	---	---	6.29	---	---	---	---
TOTAL	---	----	6.52	0.20	---	---	5.20
IV. Financing of Deficits by Aid Deliveries							
ERP Direct Aid	28.55	34.10	38.40	26.58	127.63	119.48	194.20
ERP Indirect Aid	8.00	15.00	10.00	42.56	75.56	83.10	95.57
Private Charities	0.60	0.60	0.60	0.60	2.40	4.10	9.34
Other Aid Deliveries	---	---	---	---	---	0.11	0.99
TOTAL	37.15	49.70	49.00	69.74	205.59	206.79	300.10
Unexplained Accounts	11.25	---	---	---	---	---	1.22
TOTAL INCOME	190.43	196.67	181.30	179.14	729.57	584.85	635.83

1) With regard to the change of the schilling rate the figures of the balance of payments are given in foreign currency. 2) On the basis of Foreign Trade statistics of the österreichisches Statistisches Zentralamt.

* The publication of the Austrian balance of payments for 1951 in Vol. II (February 1952), page 106, was based to a large extent upon provisional results. See also the diagram.

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5: Heisenberger, S-4,5 (no date) 1953
EK1 Austria EK1

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652 If one examines the structure of these results more closely, one will see immediately that the deficit of the trade balance is by far the biggest burden to the total balance, which is not covered at present by the moderate assets of tourist traffic and the surplus of the transit traffic, plus other receipts from services. This deficit was covered up to the present from ERP funds, which must be replaced in the present year (at least in the second half of the year) by other methods if the import programs are not to be seriously restricted. Any restriction, however, would be most decisive. If reduction of the imports of foodstuffs were undertaken it would result in a grievous lowering of the general standard of living; if one attempts a restriction of raw material imports the plants and factories would have their operation curtailed and partial unemployment would result; if one lowers the import of coal and fuel the general tempo of production will suffer with all the consequences this would have upon the social and economic life of the country.

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439 It is clear that none of these alternatives would be acceptable since normal development must be to the interest of Austria as well as the whole of Europe. But where is one to find an acceptable solution? An analysis of the figures of foreign trade gives the following picture:

To begin with, the table shows the development of foreign trade in the last two years as compared to the last year before the war. To make the figures of 1937 comparable with those of 1950 and 1951 (which are inflated owing to currency devaluation), the amounts in new schillings were reduced to the previous schillings value by dividing them by the index of wholesale prices (1950: 553 and 1951: 742).

	Quantity in Millions of Centners	Value in Millions of Schillings
1937		
Imports	6.2	1,453.7
Exports	3.8	1,217.0
Deficit		237.0
1950		
Imports	8.5	New Schillings 9,200.0
		Old Schillings 1,664.0
Exports	3.5	New Schillings 6,513.0
		Old Schillings 1,178.0
Deficit		New Schillings 2,687.0
		Old Schillings 486.0
1951		
Imports	9.2	New Schillings 14,027.0
		Old Schillings 1,890.0
Exports	3.8	New Schillings 9,635.0
		Old Schillings 1,298.0
Deficit		New Schillings 4,392.0
		Old Schillings 592.0

A comparison shows that the quantity of imports (1951) increased by about 50 per cent as compared to the prewar period, while the value (reduced to old schillings) has increased only from 1,452.7 to 1,890.0 old schillings, *i.e.*, by 30 per cent. Exports reached their prewar volume in quantity (3.8 million centners) but in value in old schillings the increase amounts to only 6.7 per cent (from 1,217.0 to 1,298.0 million schillings).

The fact that the value of imports lags behind the quantity of imports proves that the structure of imports underwent certain alterations. As compared to the prewar era, more goods with a cheaper rate per centner were imported, excluding some mass goods such as coal and bread grains, the dollar-per-centner price of which has doubled as against 1937. Moreover, the development of exports proves that by 1951 Austria had already reached the prewar level in quantity as well as in value. There is, therefore, no blame to be attached for not reaching the aim of the total capacity because the total deficit of 237 million schillings (1937) rose to 592 million old schillings in 1951. The reasons for this development, which tends toward a deficit, lie in large measure in the above-mentioned

439 435 deterioration of the exchange rate between imports and exports (excluding the far larger import of investment goods). (The investments quota amounted to 6 per cent before the war and rose to 21 per cent of the gross national income in 1951. The comparatively high quota could be maintained, of course, only with the help of ERP funds.) These circumstances also caused difficulties in bigger and economically more powerful states because the real value of foreign aid suffered remarkably by these price developments since the middle of 1950.

439 652 454 Normalization of the trade balance must be achieved in regard to both imports and exports. This will be achieved through:

1) The increasing effect of the investments made within the scope of the Austrian Investment Program 1950-52 and by the revised investment policy. These are short-term investments which will be cheaper and more exportable by raising exports or, indirectly, by cheapening unfinished goods. Among these import saving investments only such investments shall be supported (excluding imports for agriculture) as will be justifiable within the scope of a liberalized foreign trade and in the framework of the international distribution of labor. In spite of the basic continuation of big industrial projects (in view of the end of ERP aid and counterpart funds it will not be possible to afford bigger amounts for big projects which will show their effect only after a long period because of financial and credit policy), the necessary shift in the center of gravity toward the typical export industries will remain a characteristic feature (the export industries are craft enterprises and the foreign tourist traffic, both of them real foreign currency earners). In this connection it should be remarked that part of the investments which have been carried out through public investment programs have not yet matured. Owing to the comparatively late start of real investments in Austria as compared to other ERP countries (1950), they will be fully effective only as late as 1954-55.

439 2) Exhausting all possibilities of the existing and future opportunities in the trade policy. Thus, for instance, the new German liberalization together with the new trade agreement opens the German export area to Austrian production so that, with an adequate support, a big part of the Austrian production capacity will be fully utilized. Also Belgium lowered the

restrictions on its imports in order to abolish its 439
accounts at the EPU. There are no restrictions to the imports into Switzerland. France recently has promised to facilitate imports of Austrian goods by abolishing its assets in the trade account. Further potentialities in exports may be found in the Near East. Thus, for instance, Turkey has concluded a "classic trade and shipping agreement" with West Germany as recently as February 16, 1952, under which German participation in the industrialization of Turkey has been secured.

3)[1] An intensive and extensive increase of [241]
agricultural production (a step by step decrease in [652]
the import of bread, grains and sugar to the prewar level). In doing this the fact was taken into account that in 1938 almost 80 per cent of the normal consumption of wheat and rye and 98 per cent of the domestic consumption of sugar had been covered by domestic harvests. This aim can be reached in view of the more advanced techniques of fertilizing and in view of investments for agriculture. (In the Long-Term Program for 1952 provision is made for a cultivation area for bread grains of 576,000 hectare. This could not be attained because of price policy consideration. It may be possible to carry out the necessary extensions of production by the projected shift in subsidizing the proposed prices in agriculture and by stopping migration from rural areas. At present a law is under discussion pertaining to this.)

4) Categorizing the import goods on the basis of their importance to life; in this case the imports of sugar may be restricted and the import of colonial wares may be revised.

5) An increase of the productivity of plants in order to lower production costs and to build up a firm level of real wages.

6) A new calculation of costs as favored by lower prices of raw materials.

There is no doubt that none of these programs 000
can actually be carried out to full extent since the economy is still in a state of flux and outside influences make current adjustments necessary. But it is most important to find a general line as a center of focus for necessary measures. It will be possible, with the continuous consolidation in certain fields,

[1] [Normalization of the trade balance in regard to both imports and exports will be achieved through: --Analyst]

000 to take up the method of foreign credits (as recently was done in the textile industry) which were afforded by the Export-Import Bank for the purchase of American cotton in the amount of 6 million dollars. As this cotton is cheaper by 20 per cent than that from the pound-sterling area (Egypt), the manufacturing industry is likely to improve the conditions of competition because of the more favorable calculation of costs.

To create certain conditions for the normalization of the balance of payments with regard to trade policy, the monetary and production policy has to provide those measures which will abolish the differences between the assets and deficits of a national economy if such have taken place or are likely to take place.

There are economic principles which no country, regardless of its economic system, can omit permanently without disadvantageous consequences to its social structure. It cannot be denied (without adhering to the quantitative theories) that there must exist an adequate relation between the circulation of money means within an economy and its offer of goods and services, otherwise the inflowing capacity of purchasing power (not covered by services) will lead to a concealment of the minimum of capacity.

Although in the last few years the influx of overseas goods into European countries has covered the amount of demand which surmounted the continuously increasing gross national product, the volume of the means of payment has increased more rapidly than the volume of goods. (The index figures for European production are on the average 10 per cent higher than before the war in most countries; the volume of means of payments increased in the last 2 1/2 years in almost all countries because of external conditions—the Far East crisis and increasing public expenditures.) Decisive, however, for the stability of the currency is a firm basis for the calculation and capital in an economy, excluding the economic capacities of a country in its monetary and credit policy by which a possible diminution of the value of money may be recognized and stopped. The reestablishment of confidence in its own currency must be the center of any country's economic policy reconstruction.

C. Reconstruction Planning.

Reconstruction of the economic policy means a gradual overcoming of the crisis of the balance of payments and the securing of internal and external balance. Such a policy will create conditions which can provide a free convertibility of currencies and the real integration of the single economies. (This is among the aims of the Marshall Plan.) (The EPU is of special value. Due to expire on June 30, 1952, it will be prolonged as an instrument of overcoming crises in the balance of payments which arose as a consequence of the Korean crisis in a number of countries. Without this aid the difficulties could not have been overcome so easily. At present the problem of the quotas, of the brake on money, and of establishing currency rates is an open one, since the current rates no longer correspond to purchasing power.) However, the aim of abolishing the restrictions on foreign currencies and the free convertibility of foreign currencies cannot be achieved within a short time. It will be necessary to establish manipulation funds which serve toward overcoming short-term shifts and creating certain structural correctives. 457

The maintenance of financial stability as a means of guaranteeing the functioning of a currency is connected with the status of the governmental balance (excluding the calculation of costs in an economy). The frame of figures for the single items (titles, chapters) of the Finance Law (Budget) must be reduced if a surplus of expenditures arises which is not covered by taxes or other possibilities (at present counterpart funds); in this way a balance can be achieved between incomes and expenditures if the foundations of a stable currency are not to be shaken by the budget. If one tries to avoid these conditions, one has to set up a system of savings on the one hand, and to take measures for the reconstruction of a capital market of high capacity, on the other. Like other countries, Austria also will have to endeavor to transfer gradually a big part of its investment demands from bank credits or counterpart credits to the capital market. This development must be considered the soundest form of long-term financing. The necessary revision of the investments policy caused by reasons of the total economy has been dealt with in connection with the balancing of the balance of payments. (This is connected with the reduction of 652 [454] 652 457

457 foreign aid. While in 1951 about 200 million
dollars was available, this sum will be approximately
652 100 million dollars for 1952; the schilling
counter value to foreign aid, therefore, will decline
from 4.4 billion schillings to presumably 2.1
[435] billion schillings. Moreover, as the prices at the
end of 1951 were higher by 12 per cent than the
average for 1951, there will be about 2.7 billion
schillings less out of foreign aid funds for investments
than in 1951.) In addition, the budget is
burdened by a number of price supports, the abolition
of which will not be possible to a full extent under
the present conditions. Immediate reactions on the
prices for foodstuffs and new rises in wages would
be the consequence. The policy of supporting prices
must not be omitted when the system of subsidies is
altered. [Since the fifth Wage and Price Agreement
of July 1951 the existing method of financing important
consumption goods was taken over from counterpart
funds by the budget. Thus, there are still
considerable budgetary expenditures under this title.
They amount per year to about 40 million schillings
for the support of domestic bread-grain prices, 366.5
million schillings for foreign bread-grains, 555.75
million schillings for fodder, 110 million schillings
for fertilizers and 135 million schillings for raw
materials of fats needed by the margarine industry.
The term for supporting the prices of domestic bread
grains (15 groschen per kilo) already has expired.
The remaining subsidies will expire with the end of
June. Discussions with the aim of continuing these
subsidies are not yet finished. They tend, above all,
to stimulate production by adequate prices.]

652 Already in the preceding year the stabilization
of the money value was prepared to a consider-
[453] able extent. Measures of this type were: the introduction
of the quantitative and qualitative control
of credits; the increase of the bank rate from 3 1/2
[435] per cent to 5 per cent; and the lowering of prices,
started by private industry of its own volition--this
latter measure applying to about 80 categories of
goods. This materially and psychologically important
premise of an organic policy for stabilization must
be supplemented by an adequate budgetary policy. It
cannot be denied that the measures which were taken in
the preceding year had already brought about significant
454 results. The savings increased considerably in
652 the first two months of the present year; they rose
from 2,275.1 million schillings (checking account
deposits 8,898.7 million) to 2,619.5 million schillings

(checking account deposits: 8,731.9 million schillings) from December 1951 until the end of February 1952. This development must not only be evaluated absolutely, but also as a positive symptom.

Single measures require careful coordination as they effect a number of economic laws (foreign trade law, raw materials allocation law, price control regulations, etc.) and also, in the final analysis, international developments. (The above mentioned laws will expire on June 30, 1952.) They laid the principles for various control measures.

The decisions taken by the OEEC (of which Austria is a member) resulted in a number of recommendations to the member states; the observance of these will be of essential importance for an eventual continuation of foreign aid to single countries. They not only provide for the extension of European production by 25 per cent in the next five years but stress especially the maintenance of "financial stability." This means an increase of productivity, the balancing of the dollar balances and the expanding of agricultural potentialities. How important the establishment of a financial balance is felt to be the carrying out of the total programs is best seen by the decision of the Committee of Ministers to examine the internal financial condition of the single countries by a special committee of experts. These periodic evaluations of the total conditions in the United States and in Canada as well as in the European countries are to form the basis for adjusting the common economic policy. It is expected that the American and Canadian governments will accept the decisions of this committee; thus, for the first time the OEEC extends its activities, which were up to now restricted to western Europe, to North America, thereby introducing a new era of international cooperation. 000

The Marshall Plan is about to end. We already can see the contours of the principles of a new economic cooperation. While the ERP was based mainly on grants (gratis aid deliveries) to give European production a start, there will be in this second stage a restricted convertibility of foreign currencies through the medium of the EPU. In its third stage, trade policy liberalization will be approached with the aim of a unified European market. Thus, in a fourth stage, the principle of an international credit standing will again be achieved in

000 international goods, credits and payments traffic. This presumes, besides a number of psychological factors which are based on a continuing trust of its own population, a balanced budget, a stabilized value of money, a gradual rise of the capital funds of the economy, liquidity and adequate productivity and the mastering of the problems of the balance of payments within the scope of the possibilities of a single state.

A bridge must be built between the aid grants and an economy which is able to create the internationally valid presumptions of its credit standing. Austria, on the other hand, will not only have to refer to its special conditions (when its economic status is to be judged) but it also will refer to its historical determinants before outside economic experiences and systems should be applied to its own conditions--be it gradual or on a restricted scale.

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